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FROM JULY TO DECEMBER 1957

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THE CHAIRMAN'S ADDRESS

THE Companies Act does not devote much space to the specific functions of the chairman of the board of directors of a limited company and the duties it does define do not include that of making a speech at the annual general meeting of shareholders. Nevertheless, it is a tradition that he should do so and the methods of approach to this task vary considerably. Fortunately, the kind of address which is a parade of the chairman's personal political prejudices rather than an objective review of the company's fortunes, is becoming a rarity. The growing realization that his comments may well be of as much importance to shareholders as the facts and figures contained in the accounts, is one of the reasons for the steady improvement in the quality of the address from the chair. In America and Canada, this view has become so completely accepted that in the annual company information sent to shareholders, the chairman's address is bound before, and serves as an introduction to, the financial statements which follow. The custom of circulating the chairman's address in advance of the meeting - a practice inaugurated in this country during the last war when members often found it difficult to attend on the appointed day - has been continued by many companies.

What information should the shareholders expect to find in the address? A newly-published pamphlet on the presentation of company accounts¹ suggests that it should be so constructed as to relate 'results and expectations' to the economic situation past, present and future, and goes on to list some aspects of the company's affairs to which the chairman might reasonably be expected to refer. These include a 'succinct description' of the principal features of the company's performance during the past year, the effect of political and economic circumstances during the period, an account of how or to what extent difficulties were overcome and opportunities exploited, a similar analysis of 'performance, environment and reconciliation' for the current financial year to date, a prognosis of what may happen in the remainder of that year and a discussion putting the past and current years into perspective. Two other topics on which the chairman might comment (the pamphlet suggests) are particulars of the company's main activities and their relative importance to each other and, finally, the question of employee relations.

It would be an interesting hot-weather exercise to select a shady seat in the garden and analyse a sheaf of recent company reports to see how many chairmen matched up to this excellent counsel.

¹ *Company Reports and their Presentation*. (The Society of Investment Analysts Limited, 10 Old Broad Street, London, EC2. 5s net.)

EAST AFRICAN TAX INQUIRY

THE income tax code which covers East Africa – consisting of Kenya, Tanganyika, Uganda and Zanzibar – has recently been the subject of an exhaustive inquiry by a Commission which was appointed in June of last year, under the chairmanship of SIR ERIC COOTES, C.S.I., C.I.E. The Commission's report, recently published,¹ covers 200 pages and is of considerable interest, not only to persons connected with the territories in question, but to everyone concerned with the problems and the theories of income taxation. One of the three members of the Commission was MR E. R. BROOKES, C.B., a member of the Board of Inland Revenue, who was the first secretary to the Royal Commission on Taxation in the United Kingdom, as well as being the secretary to the first Millard Tucker committee. Considerable use was made of the reports of these two other bodies and the new report is to some extent a sequel to them.

Though the territories are not, of course, as highly developed as the United Kingdom, they have their own peculiar complexities in the field of income tax. There are three racial groups in the territories, Europeans, Asians and Africans, and at present the burden of income tax falls almost entirely on the first two groups, although a growing number of Africans are coming within the range of the tax. These facts give rise to a good deal of controversy about personal allowances; for instance, the rule providing for allowance for only one wife is often regarded as harsh by polygamous taxpayers. The Commission observes that the revenue needs of the governments concerned exceed their taxable resources and they are compelled to limit income tax personal allowances.

Again, there is no common language. Where inadequate records are kept, the Commissioner of Income Tax has power to specify the nature of records to be kept and also the language in which they are kept, although there is a right of appeal. In consequence, some Asian traders have been required to keep books in English. The report contains no recommendation on the subject. It recalls that an earlier committee recommended that when the Commissioner issues a notice

requiring the keeping of records, he should be bound to specify English as the appropriate language. The Kenya Government declined to act upon this recommendation on the ground that it was premature.

On the long-standing controversy as to whether high rates of tax adversely affect work and initiative, the Commission were unable to arrive at any firm conclusion. They said that particular cases of reduced effort could be cited, but it was not always clear how far income tax is the prime mover and how far it is a convenient means of rationalizing a simple disinclination to work. The inroads made by income tax on accustomed standards of living may actually increase effort and output. The Commission observe that a very high proportion of those who urged the need for lower taxes to encourage work, had little idea of the marginal rate of tax applicable to themselves. However, in the result, the Commission recommend that the rate of tax on companies be increased by 50 cents in the pound, the additional revenue so accruing be used to relieve the weight of taxation falling on individuals.

As to a suggestion that investment allowances be introduced in place of initial allowances, the Commission think that this would mean unfair discrimination in favour of taxpayers carrying on businesses and they have declined to make the suggested recommendation. They have also turned their faces against the replacement cost basis for depreciation purposes, preferring the historical cost basis recommended by the British Royal Commission and by the first Tucker committee.

In relation to the field of income tax in East Africa, evasion seems to present a grave problem. In the year ended June 30th, 1956, the Special Investigation Branch settled 101 cases involving £1,100,000, and at the stated date was handling over 200 cases. The Commission recommend a system of tax clearance certificates to prevent income tax evaders from leaving the territory, and powers to prevent the destruction of books and documents.

There are recommendations that the legislation be revised and if possible simplified, and that explanatory pamphlets and practice notes should be issued by the tax authorities.

¹ *Report of the East African Commission of Inquiry on Income Tax, 1956-57.* Obtainable from The Crown Agents for Oversea Governments and Administrations, 4 Millbank, London, SW1. 18s 4d (post free).

THE FINANCE BILL – VIII

OVERSEAS TRADE CORPORATIONS

Computing Exempt Income at Winding-up

LAST week we reviewed the provisions of Part II of the Fifth Schedule, which lays down rules for computing the amount of undistributed exempt income applied by a liquidator in a winding-up. We referred to the weakness of paragraph 14 which, in relation to the last trading period, required the valuation of trading stock to be taken at open market value, and we questioned whether the draftsman of that paragraph realized that there would normally be two items for stock: opening and closing. Last Monday the Government introduced an amendment confining the operation of paragraph 14 to the closing stock figure, and thus curing this defect.

At the same time another amendment made it clear that, for the purposes of Part II of the Schedule, both expenditure and receipts should be treated as capital if, and only if, they would be so treated for income tax purposes. This, of course, is a further modification of the provision in Part I that profits should be computed on recognized accountancy principles.

Approved Superannuation Funds

One of the incidental effects of the new Bill as originally drafted would have been to deprive some approved superannuation funds of the exemption they normally employ in relation to dividends received, for there are elaborate provisions for assessing an O.T.C. on dividends made by it out of exempted trading income, and there was no saving clause for dividends paid to approved superannuation funds. On Monday the Government accepted an amendment consisting of a new paragraph 2 to the Fourth Schedule which preserves the effect of Section 379 of the Income Tax Act, 1952.

Annual Determination of O.T.C. Status

For years after 1957-58 it will, in general, be necessary for a company to qualify as an O.T.C. throughout an income tax year. Failure to qualify for any part of such income tax year will rob the company of its O.T.C. status for the whole year if it is in existence and also resident in the United Kingdom throughout that year. If a

company becomes or ceases to be resident in an income tax year, it has to have the necessary qualifications throughout the time when it is so resident, and moreover, as regards the remainder of the year, neither it nor its subsidiary (if any) must have carried on activities in the United Kingdom (clause 27). The Inland Revenue have power to ignore a disqualification arising from some event either beyond the company's control or done inadvertently and without bringing the company any material advantage.

As regards 1957-58, it is possible to obtain O.T.C. status as from April 6th, 1957, or as from some later date, in which case clause 27 applies *mutatis mutandis* to the part year during which the company is an O.T.C. The Case I assessment (or the loss) and capital allowance will then be apportioned on a time basis (clause 34).

The Eighth Schedule deals with some consequential matters relating to basis periods and to the carry-forward of losses and capital allowances where a company changes its status to or from an O.T.C. Losses and capital allowances are not to be carried over a date of change. Where the change occurs during 1957-58, the relevant losses and capital allowances will be apportioned on a time basis for the purpose of applying the schedule. Where a company loses its O.T.C. status at a time when it is carrying on a trade, assessments are to be raised on the basis that a new trade has been set up on the date of change.

It was pointed out during the Committee stage of the Bill that O.T.C. status may not bring any advantage to a company. The CHANCELLOR undertook to look into the possibility of allowing a company to opt out of Part IV of the Bill. Of course, once such an option was exercised, the company would not normally be allowed to regain O.T.C. status. An undertaking was also given to look into the possibility of losses etc. being made capable of carry-forward, kangaroo fashion, over an intervening O.T.C. period.

Reclaim of Tax on O.T.C. Dividends

As we stated in our issue of June 15th, clause 23 in its original form prohibited the repayment of tax to a non-resident shareholder of an O.T.C.

if that non-resident shareholder was a subsidiary of a resident company, but made an exception in favour of a resident principal company which was also an O.T.C. It has since occurred to the Government that that circumstance by itself should not necessarily bring any relief, since the O.T.C. principal might have no other connection whatever with the O.T.C. company paying the dividend. As a result, clause 23 (2) has been amended so as to prohibit repayment even where the resident principal is an O.T.C. At the same time, a consequential amendment was made to clause 23 (3). This sub-clause, as originally drafted, provided that in relation to dividends received by an O.T.C. from its O.T.C. subsidiary, the principal O.T.C. should be treated as non-resident, and thus, of course, entitled to repayment of the tax deducted. The amendment simply ensures that if the principal O.T.C. happens itself to be a subsidiary of a resident principal company, it may nevertheless still have repayment.

Anti-Avoidance

The exemption enjoyed by an O.T.C. will inevitably give rise to the temptation to its associated companies to enter into transactions which artificially increase the O.T.C. profit at the expense of the taxable profit of the other companies. A similar temptation already exists where a British company is associated with a non-resident company, and Section 469 of the Income Tax Act, 1952, gives the Inland Revenue power to attack transactions at artificial prices and to substitute market prices. Clause 28, in effect, applies Section 469 to transactions with an O.T.C., but makes its operation much wider in that it can apply even when the two parties to the transaction are not under common control. However, it is one thing to give the Inland Revenue the power to attack transactions, it is another thing for the Inland Revenue to discover the transactions which merit attack. It was disclosed in the House of Commons on the Committee stage that Section 469 itself had been applied on very few occasions.

Transfer of Part of Trade to O.T.C.

It has been recognized ever since the proposal to exempt O.T.C.'s was announced, that very many companies and all individuals would be able to take advantage of it only by hiving off the overseas

part of their trades to a separate company which could qualify as an O.T.C. Hiving off part of a trade normally has income tax disadvantages in that the trade continues to be assessed on the preceding-year basis and therefore the resulting fall in profit is not reflected in reduced income tax assessments until a year or more later. trader from this incidental disadvantage.

The clause was originally expressed to have effect where:

- (a) the trader held at least 95 per cent of the shares of each class in an O.T.C.; and
- (b) part of his trade was transferred to the O.T.C. (clause 29 (1) (5)).

It was subsequently realized, however, that this requirement of a direct holding of 95 per cent might unduly hamper the taxpayer who desired to set up a holding company with two or more O.T.Cs. subordinate to it. It might be desired to control an O.T.C. through an intermediate company, or partly through such a company and partly by a direct holding of shares in the O.T.C. Accordingly the Government moved amendments to clause 29 to allow these things to take place without a forfeiture of the benefits of the clause. The amendments involve more 'legislation by reference', in that Part I of the Fourth Schedule to the Finance Act, 1938, dealing with profits tax groups, has been called in aid.

One apparent difficulty which does not seem to have been noticed is that if a company is formed *ad hoc* to be an O.T.C., it cannot in fact be an O.T.C. in the normal way until it has actually acquired a trade. Strictly, therefore, the benefit of clause 29 cannot be obtained by transferring part of a trade to a newly-formed company.

If the requirements of the clause are in fact satisfied, assessments on the trader for years of assessment following the transfer are to be computed on the basis that the part-trade retained is a separate trade. Accordingly profits of the transferred part (arrived at on a just apportionment) will be excluded from the assessment. At the same time no capital allowance or balancing charge will be made in respect of an asset 'provided or used for the purpose of the part of the trade which is so transferred'. Presumably this applies only to assets used solely for that part, not to assets which before the transfer were used for the business as a whole; but the drafting is very loose. (To be continued.)

TAXING BANK INTEREST

CONTRIBUTED

IT is always an agreeable situation to have money in the bank, and more agreeable still to keep adding to the amount. Though few may be able to increase their bank deposits by £2 million in a single day, the recent case of *Hart v. Sangster* (18 T.R. 73) will be of interest and concern to large numbers of smaller depositors.

The receipt of money on deposit account constitutes the banker a debtor to the depositor, and makes the debt repayable either on demand or on conditions agreed with the depositor (*Halsbury's Laws of England*, 3rd edition, Vol. II, page 174). Interest earned on bank deposits is assessable under Case III of Schedule D. Generally income charged to tax under this Case is assessed on the 'preceding year' basis, but, exceptionally, as respects the first year in which the income arises, on the 'current year' basis (Income Tax Act, 1952, Section 131 (1)). This exception extends to a new source of income additional to an existing source. By Section 131 (3) (b) of the same Act the new or additional source of income is, for the purposes of assessment, to be kept distinct for the first and two following years of assessment.

Circumstances in Sangster's Case

In *Sangster's* case the taxpayer on March 16th, 1951, had £20,496 on deposit with his bankers on usual (rather than special) terms. The following day he paid £2 million into the account and on March 30th, 1951, withdrew £250,000. On June 20th, 1951, he was credited with £2,215 3s 1d for interest, made up as follows: eighty-seven days' interest on £20,496 to March 16th, 1951; thirteen days' interest on £2,020,496 from March 17th to March 29th less four days' interest on £2 million while the cheque for that amount was being cleared; and eighty-two days' interest on £1,770,496 from March 30th to June 20th less fourteen days' interest on £250,000 which was withdrawn without the requisite notice.

The Inland Revenue took the view that when the £2 million was paid into the taxpayer's account, a new source of income was acquired by him. Assessments were accordingly made on him in the amounts of £7,037 for 1951-2 and £29,371 for 1952-3, the main item in each assessment being bank interest. The assessment for 1952-3 was made under Section 131 (3) (b) of the

Income Tax Act, 1952, and that for 1951-2 under earlier provisions. Section 21 of the Finance Act, 1951, applied if the source was acquired before April 6th, 1951, and income first arose from it *on or after* that date; or Section 30 of the Finance Act, 1926, if the income first arose *before* that date. (Section 21 of the Finance Act, 1951, nullifies the decision in *Goodlass, Wall and Lead Industries Ltd v. Atkinson* (29 A.T.C. 164; 31 T.C. 447) where the House of Lords held that proviso (ii) to Section 30 of the Act of 1926 applied to income of the year of assessment in which the new source of income was acquired).

Had the taxpayer been assessed on the preceding year basis the relevant assessments would have been £53 for 1951-2 and £7,000 for 1952-3. The difference was thus substantial.

The Special Commissioners allowed an appeal, holding that the source of the income which was the subject of the appeal was the contractual relationship established between customer and bank when the deposit account was first opened. Accordingly, there was no new or additional source of income when the £2 million was deposited on March 17th, 1951.

Crown's Appeal Allowed

The Crown in the Chancery Division asked for the assessments to be restored and contended that the taxpayer acquired a new or additional source of income on March 17th, 1951; that income first arose therefrom on June 20th, 1951, when interest was credited to the account; and that income tax was properly computed by reference to Section 21 of the Act of 1951.

The taxpayer, on the other hand, contended that there was a subsisting, pre-existent and continuing contractual relationship affecting and covering whatever money was for the time being and from time to time standing in the deposit account; that the interest earned should be assessed to tax for the years in question on the preceding year basis in accordance with Rule 2 (1) (b) of the rules applicable to Case III of Schedule D; and, alternatively, that the income first arose prior to April 6th, 1951, so that Section 30 of the Act of 1926 applied.

Vaisey, J., in allowing the appeal, considered the conception of a running contract between customer and bank to be vitiated by the principle that a present contract to enter into a future

contract is, in English law, no contract at all. (See *Von Hatzfeldt-wildenburg v. Alexander* [1912] 1 Ch. 284). He accordingly held the assessments to have been properly made because the taxpayer on making the deposit entered into a new contract with the bank and a new source of income was so created. This decision, he said, accorded with *Lilley v. Harrison* (31 A.T.C. 365; 33 T.C. 344), a case concerning the assessment to tax of arrears of interest on mortgage bonds of a foreign company. The learned judge also held that the income arose, for the purposes of the Income Tax Acts, on the day as from which the bank credited interest, and not from day to day, although interest accrued in fact from day to day.

The Court of Appeal affirmed the decision of the Court below on a different ground. They said the assessment was properly made because the taxpayer's deposit on the terms of the *subsisting* contract between him and the bank constituted a new source of income within the meaning of Section 21 (1) of the Finance Act, 1951 (which the parties for the purposes of the Court proceedings agreed should apply to the 1952-3 assessment also), although the deposit of the £2 million on the terms of the subsisting deposit account was *not* a new contract.

Lord Goddard, C.J., who delivered the judgment of the Court, said:

'I cannot agree that where a deposit account is kept between a customer and a banker there is a new contract every time money is paid in. I think that it is one continuing contract, but the contract itself yields no income at all. (On the other hand) the deposit of money would (also) yield no income at all unless there was an agreement to pay interest, expressed or implied. The source of the income seems to me to be the deposit of money on certain terms. . . . Just as if there were only a contract to pay interest on money, no interest would be payable until money was deposited, so it follows that, if there were a deposit of money without an agreement to pay interest, there would be no interest arising from it. . . . There is no difference between a deposit account and a current account so far as the relationship of banker and customer is concerned (though a banker does not, as a rule, pay interest on current account). The relationship is perfectly clear. The leading case is *Foley v. Hill* ((1848) 2 H.L. Cas. 28), mentioned in the judgment of Atkin, L.J., in *Joachimson v. Swiss Bank Corporation* ([1921] 3 K.B. 110, at page 130). . . . In my opinion, if an addition is made to the amount

which is deposited, the words of Section 21 of the Finance Act, 1951, are quite wide enough to catch it. I quite agree that certain difficulties might be imposed on the Inland Revenue if they were to pursue every deposit account and find out whether or not there had been an addition to the account during the course of the year. I do not suppose it would be worth the trouble unless (the account) had been increased by a large amount.'

To summarize, therefore: the Special Commissioners held that the initial contract was the source of the income; Vaisey, J. held that the source of income was the deposit of the money coupled with the contract; and the Court of Appeal held that the source was the deposit of money on the terms of a *subsisting* contract.

Effects of the Decision

How far, then, does the decision of the Court of Appeal (leave to appeal to the House of Lords was refused) accord with or differ from current practice? *Simon's Income Tax*, 2nd edition Vol. II, paragraph 458 relies on *Cull v. Cowcher* (13 A.T.C. 73; 18 T.C. 449) - cited by both parties before Vaisey, J. - for the statement that

'where money is placed on deposit at interest, it is the money which is to be regarded as the source of income, and not the agreement under which interest is paid.'

Before *Sangster's* case, one section of professional opinion has always held that, strictly, fresh deposits at a bank give rise to a new source of income, though, according to Vaisey, J., there is a 'popular view of the position' in the opposite direction. In the past, however, it has been the practice to treat the whole bank account as one source of income assessable on the preceding year basis, and where the balance is reasonably stable little difference can result in the tax payable whichever basis is adopted. But now that the strict legality of the practice has been reviewed by the Court of Appeal and judgment pronounced in favour of the Crown, the position is scarcely a happy one bearing in mind the Inland Revenue's known talent for applying favourable decisions in other directions.

What of bonus shares and new investments, and dividends from 'take-over' companies, replacing the dividends formerly received from absorbed companies? Will they, too, now be treated as new or additional sources of income? And where will the Revenue draw the line in regard to bank interest? As Lord Goddard, C.J. has clearly visualized, the situation is one which may create certain difficulties which will require good sense on both sides to resolve.

MEMBERSHIP OF ACCOUNTANCY BODIES

As at January 1st, 1957

	1957			1956			1955			1940		STUDENTS	
	Total membership	In practice	Not in practice*	Total membership	In practice	Not in practice*	Total membership	In practice	Not in practice*	Total membership		Jan. to Dec. 1956	Jan. to Dec. 1959
The Institute of Chartered Accountants of Scotland	6,015	1,391	4,624	5,873	1,382	4,491	4,924			4,477		352	315 335 190
The Institute of Chartered Accountants in England and Wales	19,414	7,500	11,914	18,772	7,371	11,401	14,632	6,183	8,449	13,473		1,596	1,498 1,305 663
The Institute of Chartered Accountants in Ireland	1,002	300	702	965	309	656	724	258	466	433		53	62 72 41
The Society of Incorporated Accountants	11,137	3,642	7,495	10,784	3,582	7,202	8,496	3,253	5,243	7,754		1,163	1,259 1,303 586
The Association of Certified and Corporate Accountants	9,900			9,564			7,664			6,092		1,304	1,195 1,710 1,635
The Institute of Municipal Treasurers and Accountants	2,804			2,684			1,805			1,242		162	232 285 102
The Institute of Cost and Works Accountants	5,352			5,001			2,710			1,233		2,919	2,542 1,793 436

* Includes members not in practice who are employed by a firm of accountants.

The figures for 1955 (and for 1954 for students) were published in *The Accountant* dated July 7th, 1956, at page 6.

MANAGEMENT ACCOUNTING AND AGRICULTURE

by R. W. SMITH, O.B.E., T.D., F.C.A.

IN giving this address I do not propose to talk about accountancy and still less about agriculture. But I do want to try and provide some scope for discussion on the application of management accounting to the agricultural industry, and particularly to the smaller trading units which form far and away the majority. What I have to say on the subject could, to a large extent, apply to management accounting in connection with almost any small business. There is a popular misconception that management accounting involves the use of specialist technique which is outside the normal province of the practising accountant, especially the man who is in a small way of business. There is, in fact, no mystery surrounding the subject. Since this paper was prepared there has been published an admirable book entitled *Management Accounting for Agriculture*, by Mr S. V. P. Cornwell, M.C., M.A., F.C.A.¹ In my talk tonight I can only discuss the subject in very general terms, but for those who wish to make a detailed study I can confidently recommend this book.

I should perhaps explain that I come from an area in the south-east of England which is predominantly agricultural, but which enjoys an unusual degree of prosperity in this respect, chiefly on account of the specialist activities in fruit and hops, but also because of the exceptional fertility, and the proximity of the London markets. But I do not wish you to think that on account of this I may be unduly biased. Even where agriculture is prosperous there is room for considerable improvement in the management aspect. My subject is chosen to provoke discussion and to lead us to an exchange of ideas.

I was warned before I came here that Irish agricultural problems are very different from those in England and Wales, chiefly on account of the very large proportion of small holdings that exist. I doubt if this does constitute a serious difference. It may surprise you to know that in England and Wales there are about 370,000 agricultural holdings, of which

170,000 are less than twenty acres, and of the remaining 200,000, only about 70,000 exceed 100 acres. The number of people employed is nearly a million if the working proprietors are included. The work that is being done in this field of management study is largely concerned with the smaller farms which admittedly have greater difficulties to overcome with regard to their economics and finance.

When I was here in the summer of last year I was very interested to read in your Press that considerable agitation was taking place with a view to improving the position of farming in the national economy. I quote from a report of Mr Costello's plans to improve rural economy.

'He announced a number of measures to restore and expand the economy. An agricultural production council representative of the farmers and the Government will be established. The Institute of Agriculture, which will undertake research and education and provide advice for farmers, will be set up soon by legislation. New forms of agricultural credit for farmers and co-operative society members will be initiated. Fertilizers will be supplied to farmers at world prices and the output of the fertilizer industry in the Republic will be bought

at economic prices to ensure the maximum production. An agricultural instructor or parish agent will be appointed for each 1,000 farms.'

To some extent this policy implies the use of subsidies in one form or another. In England and Wales, subsidies for agriculture are costing the taxpayer and the consumer about £300 million annually. I hold the view very strongly that in the long run subsidies, guaranteed prices, and most forms of control are bad because they do not and cannot encourage efficient management. They have their uses in giving improved financial status for the farmer, but he should be provided with more lasting and satisfactory means of making his business a paying proposition. There is nothing new in this problem. It has been a feature of agriculture in the British Isles for at least the last two centuries.

I think I can safely assert that both in the Irish Republic and also in England and Wales, agriculture



Mr R. W. Smith

An address delivered at a meeting of the Dublin Society of Chartered Accountants on March 13th, 1957. Mr R. C. Lewis-Crosby, F.C.A., Chairman of the Society, presided.

¹ Gee & Co (Publishers) Ltd, London.

is the most important single industry, but for rather different reasons. Here you depend as a nation on farming for economic stability. In England and Wales, we are no longer able to pay foreign exchange for the food which we formerly imported and we are compelled to produce more at home. In both countries it is important that the smaller producer should not be forced out of business owing to lack of financial incentive. It is generally true that acre for acre the small unit is more productive than the large one. Many authorities who have examined the problem have suggested that amalgamation into larger units is the appropriate solution, but there are many who hold the opposite view that the greater efficiency of the small proprietor is more desirable.

Adoption of Management Study

Farming is traditionally conservative and slow to adopt new methods. This is particularly true of the British Isles. We have lagged behind in adopting new techniques of production, the aid of science in research into seeds and fertilizers, and the use of machinery. Within the last thirty years this prejudice has largely been broken down, but there is still a long way to go. In the adoption of management study and the detailed analysis of financial and economic factors, practically nothing has been achieved until the last few years. But now in England and Wales there is considerable progress being made with this – stimulated to a large extent by the war and the problems of the post-war years.

Nevertheless, it must be admitted that for the majority of farmers, financial rewards are low and the risk of failure is high despite subsidies and other favourable factors granted with a view to increasing production. Farming is always near the top of the list in the annual census of insolvencies, and wages for the general run of agricultural workers are lower than in almost any other form of employment. This despite the fact that the agricultural worker of today has to be a highly-skilled man judged in comparison with most others.

Another factor very often disregarded in comparing farm results with those of other businesses is the absence of any allowance, in arriving at the true profits of the business, for rent, family labour, and interest on capital.

The use of the term 'management accounting' has unfortunately given rise to a fairly general impression that it is a form of financial luxury reserved for the large manufacturing or commercial undertaking. Nothing could be further from the truth or less desirable in practice. In 1954, The Institute of Chartered Accountants in England and Wales published a booklet on the subject from which I give the following quotations:

'Any form of accounting which enables a business to be conducted more efficiently can be regarded as management accounting.'

'There is a tendency for management to be regarded as meaning the higher management of large companies. Management here means any person or

body of persons who, in exercising the art of management, is or are responsible for deciding what to do and seeing that it is done; it therefore includes persons at all levels of authority, irrespective of the size of the business. The essential functions are to plan the activities of a business and to control the execution of the plan.'

'Accounting has a vital contribution to make.'

'There is no difference in principle between the kind of accounting information needed for a one-man business and that needed for a large organization.'

Now, in my view, this constitutes a very clear brief that we as a profession have a very important part to play in this respect. The objection may well be offered that the initiative does not lie with us and that there is little we can do unless the industry as a whole looks to us for the help which it needs. The relationship of the farmer and the accountant, at any rate in England and Wales, has not been well founded, because it really started when the farmer found himself involved with income tax under Schedule D as a result of wartime legislation. Prior to that, few farmers went to the expense of having accounts prepared professionally to give them information about the financial results of their business.

Quoting from my own experience, I can very definitely assert that once the farmer had been obliged to consult a professional accountant, it was a very natural and simple step to convince him that accounts could give him a much more valuable service than merely ensuring that his tax liability was confined to the legal minimum. In bringing about this result much good work has been done by the Government departments responsible and the universities and technical institutions concerned with the study of agricultural problems. In England and Wales this has now been built up into a service of very real value, which is available to every farmer, without charge. It is to be regretted that by no means all of them choose to make use of it, but those who do, have, in my experience, benefited very considerably. This is the main theme of what I wish to say tonight and I propose to give you a brief description of what is being done.

National Agricultural Advisory Service

The National Agricultural Advisory Service is sponsored by the Ministry of Agriculture and Fisheries and is operated in close connection with the County Agricultural Executive Committees. The *modus operandi* is described with suitable examples in the Ministry's booklet entitled *The Farm as a Business*,¹ from which I will quote some appropriate passages.

'Just as the soil chemist requires to know the past history of the fields on which he is asked to advise, so in farm planning the process of studying past results is an essential preliminary, helping to focus attention on both points of weakness and strength in the production programme, levels of yields and costs, and the system of management. It is, in fact, a form of diagnosis. The purpose of studying results

¹ H.M.S.O. 5s.

for at least two years, is to avoid being misled by a particular year's results which may have been influenced by exceptional circumstances or events. It may also throw some light on the effect of any recent changes in management or organization which the farmer may have introduced on his own initiative.'

'In order to make an informative diagnosis it is not necessary to have either full cost accounts, or even single enterprise cost studies, for the farm in question although, if these do happen to be available, they should provide additional useful information. Most of the essential data can be found in the physical records relating to the farm, such as the periodic agricultural returns, the farmer's diary and other office records, and in the financial accounts and balance sheet which are available on most farms in one form or another. Before these can be used for farm business analysis, certain adjustments will probably have to be made. These concern such matters as the treatment of unpaid family labour, rent and landlord's repairs in the case of owner-occupiers and a number of other points.'

Basically the system used by the National Agricultural Advisory Service is to take what records of results are available and to reduce them to a comparable basis with standards which have been previously calculated (usually taken from farms with a known efficiency factor) and then to make comparisons with the standard which will provide a basis on which advice can be given with a view to improving the economic efficiency of the particular farm.

In addition to providing a service for individual farmers, the information obtained in the course of the work is also used to produce the Government's annual review of farm incomes, a valuable document on which future planning is based, and which provides useful comparisons of all kinds.

Provincial Agricultural Economics Service

In close conjunction with the National Agricultural Advisory Service, there is the Provincial Agricultural Economics Service which is operated by the local universities and agricultural colleges. I have had personal experience of the work of those concerned in my own area. Cambridge University for East Anglia, Wye College for Kent, Sussex and Surrey, and Reading University for the South Midlands and Hampshire. Typical publications from which I will quote are:

A Simple System of Economic Analysis of a Farm Business,¹ (Reading).

Interpretation of Farm Accounts and The Family Farm,² (Cambridge).

and

Profits and Problems of Farming in South-east England,³ (Wye).

¹ University of Reading Department of Agricultural Economics. 5s.

² University of Cambridge, School of Agriculture, Farm Economics Branch. 2s and 3s respectively.

³ University of London, Wye College, Department of Agricultural Economics. 7s 6d.

These books are all really textbooks and case studies of management accounting as applied to agriculture. The important thing to notice about all this work is the emphasis on the simplicity of the whole business and the fact that elaborate financial records and costings are not necessary or desirable.

From the Reading University book:

'Those concerned with giving advice to farmers have found themselves being consulted more and more on problems which are primarily economic. Because of this, some six years ago arrangements were initiated for co-operation between the Provincial Agricultural Economics Service and the National Agricultural Advisory Service in the development of advisory work on farm management. At an early stage in this work it was found that it was desirable to have a system of economic analysis of a farm business which would enable its main economic weaknesses to be diagnosed, so that advice could be concentrated on those aspects of management where there appeared to be most scope for improvement. It was realized, too, that to be of practical value such a system must be based on the fairly simple records normally found on farms.'

Normal Accounts Sufficient

Cambridge University has this to say on the subject:

'Economic analysis may suggest to the farmer the keeping of elaborate records, but much can be done with no more than the ordinary accounts that must be prepared for taxation purposes. In the last few years the scope for economic analysis has grown and techniques have greatly improved. The co-operation of the advisory services has been secured and most district officers are now in a position to give advice on the analysis of accounts and the practical lessons to be drawn from them. The amount of time that an advisory officer can give to any individual farm is, however, limited and the farmer can do much of this work himself. As an alternative, he can ask his accountant to carry out an analysis.'

'There are types of cost accounting by which the industrialist seeks not only to learn the price he must charge for his product, but also to keep control of the production process itself. It is clearly impractical to suggest to a working farmer that he should follow any such system, or indeed that it would be necessary. But there are a number of simple tests that can give him a broad picture of his farm organization and direct his attention to those parts of it which would repay further investigation. The only figures required are the farmer's normal accounts, together with a little extra information which every farmer should be able to produce. From this data certain key-factors are calculated, such as farm income and net output, which act as "gauges" of the farm organization.'

This particular publication follows with an interesting and instructive case study but for obvious reasons I do not propose to work through that now.

My last example is from the report by Wye College of London University.

'The problem in a world where subsidies are gradually being reduced and removed, is to reduce production costs and to improve marketing efficiency

so that the price to the consumer stimulates demand, resulting in returns to producers which ensure adequate incomes. Since 1954 efficient production rather than production at any cost has become the key to success. The problem facing farmers and their advisers is how to improve economic efficiency. (The answer in general involves the production of more from the same total resources.)

Furthermore the need to finance new investment in the farm, particularly burdensome in times of inflation, must not be overlooked. It is hard to believe that in any other alternate use such amounts of capital, labour and management would earn such low returns.

'The history of farming shows many failures have arisen through over-investment. Similarly, many of the partial failures in farming, as shown by low farm profits, are due to the inability, or unwillingness of farmers to invest adequately and in a balanced fashion. In both of these types of wrong investment, the failure has often been due to lack of knowledge of how to plan the optimum level of investment on the particular farm.

'Farmers do not have the ability or do not care to involve themselves in the harder task of better . . . management. For this, two penalties have to be paid: production costs are higher than they need be, and the farmer also forgoes some income.

'The task . . . is to suggest the best alternative ways of reaching a farmer's own objectives. Where help can be given it lies in assisting the farmer to control his farm business by pointing out what are the issues at stake and to give help in the technique of forward planning. There is on the smaller mixed farms usually no time or need for the more laborious control techniques involving considerable record-keeping. There is a need for a rapid and moderately precise series of checks and the tools to do this are available. These involve the so-called economic yardsticks or indicators of efficiency. No noticeable burden of records is required additional to those which any farmer already has to keep.'

Necessity of Suitable Records

Throughout these various studies of the problem, the emphasis is very much on the fact that without suitable records little can be done towards a solution, but at the same time all are agreed that elaborate costings and other details are not necessary. There is full recognition of the fact that farmers are not book-keepers, that they do not (especially the smaller ones), employ any clerical labour, that they already have a lot of form-filling and other office drudgery thrust upon them.

Normally, where simple accounts are kept, these with some modifications will be suitable for management purposes. I do not propose at this time to describe a detailed system of preparing farm accounts, as I stated in the opening words of my introduction.

I think our duty is really this, that when we have prepared the accounts, we should go somewhat further than merely telling the client that he has made so much profit or loss, and give him some indication as to what in our opinion have been the preponderating factors which have led to the particular result.

We are dealing with accounting for management, so let us not forget our quotation referred to earlier that 'it is a form of accounting which enables a business to be conducted more efficiently'.

Professional Advice

The larger business has on its own staff a qualified expert whose duty it is to interpret the periodical figures to the management and to make the appropriate recommendations. The farmer is bound to look to his professional advisers outside his own business for this kind of service. This general guidance is admirably explained in the book, *The Farm as a Business*, already referred to:

'The last pound a farmer spends on any one enterprise should not yield less income than it would if applied to some other enterprise. The question to be asked is not whether the available farm resources are making a profit, but whether they can be used in any other way to make a larger profit.

'It may be appropriate to increase substantially the use of resources which either substitute directly for land or which are technical complements to land and serve to raise its physical productivity and especially its stock-carrying capacity.

'Labour is generally the most expensive single farm resource. The farm plan cannot afford to neglect the facts of the labour situation for a particular farm and its locality. Where labour is scarce, relative to the supply of other resources, particularly land, a simple combination of extensive enterprises may be the best solution. More obvious results can often be obtained from judicious mechanization under these conditions than under most others. The availability in the neighbourhood of efficient contracting services or of a supply of casual labour should not be overlooked.'

We should be able to look at the accounts and give the client a clear indication of such factors as, for example, excessive labour cost, insufficient output from particular activities, uneconomic use of equipment, over- or under-expenditure on capital assets. We cannot for obvious reasons attempt to give advice as to the technical remedies which can be applied, but on the other hand, I have always made it a practice to pay a personal visit to the farm and see for myself what kind of shape it is in. With a very little experience one can form one's own judgment as to whether a business is being well run from a visual inspection.

Although I may have given the impression that much of what I have had to say constitutes new developments, there is no doubt that progressive agriculturalists have had all this very much in mind for at least the last 100 years.

My talk has necessarily been confined to generalities. In the modern world this struggle for efficiency is becoming increasingly important. Newer nations with young and growing industries are setting the pace, and as in manufacturing and commerce we are all having to meet increasing competition, so, too, in agriculture the same thing is happening. It is our job to see that the management and financial side keep pace with scientific and technical development.

Weekly Notes

The Institute's Summer Course

The eleventh summer course of The Institute of Chartered Accountants in England and Wales will assemble at Christ Church, Oxford, during the afternoon and early evening of Thursday next, July 7th, and will continue until the following Tuesday morning.

In his foreword to the programme, the President emphasizes that the objects of the course are to afford members from all parts of the country (and some from overseas) an opportunity of meeting in an informal atmosphere and to promote serious thought and discussion on some of the important matters confronting the accountancy profession.

In order to increase the time available for discussion a change is being made this year in the procedure for presenting the various papers. It will be assumed that each member attending the course will have read the printed text in advance and accordingly each speaker will spend only a short time introducing his address and the course will then break up into its discussion groups. None of the speakers will read his address in full or give a lengthy commentary thereon.

The subjects chosen for consideration this year are: 'Training for the profession', by Mr W. E. Parker, C.B.E., F.C.A., of Price Waterhouse & Co, London; 'Finance for privately owned businesses, including reorganization to facilitate the payment of estate duty', by Mr A. R. English, A.C.A., Industrial & Commercial Finance Corporation Ltd, London; and 'The layout and design of accounts', by Mr E. J. Newman, M.A., F.C.A., of Newman, Biggs & Co, Birmingham.

In addition to the three formal addresses, there will be two informal talks; one by Professor J. R. N. Stone, C.B.E., M.A., on his work as P. D. Leake Professor of Finance and Accounting in the University of Cambridge; the other by Mr G. O. May, F.C.A., C.P.A., on a subject of his own choosing.

Scottish Institute's Summer School

The fifth annual summer school of The Institute of Chartered Accountants of Scotland commenced at St Andrews University yesterday and will continue until next Wednesday morning. Papers are being presented on: 'The accountant and his clients', by Professor Robert Browning, M.A., LL.B., C.A., Professor of Accountancy at Glasgow University; 'Recent taxation cases and their implications', by Mr G. D. H. Dewar, C.A., a partner in the firm of Peat, Marwick, Mitchell & Co, Glasgow; 'Some aspects of accounting and auditing in the U.S.A.', by Mr Andrew Stuart, L.M., M.A., B.L., C.A., C.P.A., of New York; and 'Current problems in management accounting', by Mr Ian T. Morrow, C.A., F.C.W.A., A.T.I.L., Immediate Past President of The Institute of

Cost and Works Accountants and managing director of The Brush Group Ltd.

The opening dinner was held at St. Salvador's Hall last evening with Mr James T. Dowling, C.A., President of the Scottish Institute, in the chair; Professor E. T. Copson, M.A., D.Sc., F.S.R.E., Master of St Salvador's College, was the guest of honour. Afterwards an address entitled 'As I see it' was given by Mr S. G. Gillies, C.A., of Glasgow. Two films, 'Accounting: The Language of Business', and 'Electronics for Accounting and Business' will be shown after tea tomorrow (Sunday) afternoon.

A report of the school, together with a photograph taken during the proceedings, will be included in our next issue.

Scottish Institute's Examinations

In the May 1957 examinations of The Institute of Chartered Accountants of Scotland, there were 116 successful candidates in the Final examination and 134 successful candidates in the Intermediate.

The Albert J. Watson prize for the candidate obtaining the highest number of marks above a certain minimum at each diet of the First Division of the Final examination, was won by Mr James Patrick Mash, of London.

The Sir William McLintock prize in two parts for the two candidates who obtain the highest and second highest number of marks above a certain minimum at each diet of the Second Division of the Intermediate examination was awarded to Mr Logan Murray, of Edinburgh, and Mr Norman Lessels, of Edinburgh.

The names of the successful candidates in the Final and Intermediate examinations (second divisions) appear elsewhere in this issue.

Irish Institute's Examinations

A total of 172 candidates sat for the examinations of The Institute of Chartered Accountants in Ireland held in May, and of these 63 (37 per cent) were successful.

There were 68 candidates for the Final, of whom 35 (51 per cent) passed - compared with 29 per cent in November 1956 - and 33 failed. The First Place and the Arthur H. Muir Memorial Prize were won by Mr Dioraid Aodh Corvin, B.Sc.(ECON.), of Belfast.

In the Intermediate there were 88 candidates of whom 25 (28 per cent) passed and 63 failed. Passes in the November 1956 examination were 42 per cent. The First Place and the John Mackie Memorial Prize were awarded to Miss Ruth Alexandra Lawlor, of Belfast.

The full list of successful candidates, with a summary of the results, appears on another page of this issue.

The Finance Bill: Schedule E and Estate Duty

On a motion that persons assessed to income tax under Schedule E should be entitled to deduct expenses reasonably incurred by them for the appropriate performance of their duties, the Financial Secretary to the Treasury said, on Tuesday last, that it was the Chancellor's intention during the year, to seek discussions with interested bodies and people representative of the types of professions particularly involved, to see if any scope for the amelioration of present difficulties could be found. The motion was thereupon withdrawn.

On Monday, the Chancellor of the Exchequer announced that he proposed on the report stage of the Finance Bill to introduce an amendment to clause 35 which was calculated to reduce possible hardship. The clause imposes estate duty on *inter vivos* gifts where what is popularly known as 'the disappearing trick' has taken place. The proposal the Chancellor had in mind was that where, before the first publication of the present Finance Bill, the donee has parted with the property or received the bonus shares as may be, he should have the option to be treated either under the old law or under the new. It would not be appropriate merely to say that the old law should apply, because some people might have parted with the shares given to them and these shares might have risen subsequently, in which case they would prefer to be dealt with under the new law. On the same day, the clause was amended so as to soften the rigours of the requirement that the gift should be treated as aggregable in all cases.

Monetary Inquiry

The committee to inquire into the working of the monetary and credit system, recently appointed by the Chancellor of the Exchequer under the chairmanship of Lord Radcliffe,¹ has now invited thirty-two representative organizations to submit evidence. Presumably, these organizations are considered to have some special contribution to make to the committee's deliberations. In the first instance, each organization is being asked to send a written memorandum and may later be asked to supplement this in oral discussion. Apart from the more obvious bodies like those representative of banking, insurance and investment interests, the organizations whose co-operation is so earnestly invited include, among others, the Association of British Chambers of Commerce, Association of Municipal Corporations, British Employers' Confederation, Building Societies Association, the Co-operative Union, Council of the Stock Exchange, County Councils Association, Federation of British Industries, National Chamber of Trade, National Farmers' Union, National Savings Committee, National Union of Manufacturers, and the Trades Union Congress.

Judging by this varied choice of organizations, the net has been cast very wide indeed over the stream

of expert knowledge and opinion on these matters. That makes it all the more difficult to understand why apparently none of the recognized bodies of accountants have been invited to participate. This lapse is particularly perplexing because both professional and industrial accountants have so much to contribute in this field, based upon their first-hand experience of problems relating to the raising of capital on the new issue market, coping with the vagaries of the Capital Issues Committee, advising upon the taxation implications of the investment or initial allowances, or dealing with profits tax posers. These and many other intricate matters of finance immediately spring to mind, and one might have hoped that due weight would be accorded to an expression of independent authoritative views by people trained in the application of these techniques.

At the same time, of course, the committee remains ready to receive evidence from any other organization not already invited, which considers that it may be able to contribute to the committee's work.

Pensions for the Directors

A company which paid £817 in premiums under a pension scheme for the benefit of its two permanent directors has failed in its claim that the £817 was deductible in arriving at its profits for income tax purposes (*Samuel Dracup & Sons Ltd v. Dakin*, *The Financial Times*, June 28th, 1957). The General Commissioners on appeal had held that the payment was not a proper business expense, and the company appealed to the High Court. Giving judgment on June 27th, Harman, J., said it was beyond comprehension that business men were entitled to say that this was a proper business expense. In other words they were laying out money to their own advantage and not that of the company. The General Commissioners were entitled to take the view they had expressed.

British Transport in 1956

The 1956 accounts of the British Transport Commission reflect the special dispensation which has been granted to the railways under the Transport (Railways Finance) Act, 1957. The accounts show a net revenue surplus of just over £3 million for the year but in fact this apparent unfavourable balance is achieved by carrying a special amount of £127.5 million forward until the railway modernization programme is completed. By then it is hoped that the railways will be able to write off what is likely to be a deficit of anything up to £250 million against true surpluses.

Reviewing the advances made in the organization during 1956, the Commission records that the decentralization of management foreshadowed in the Railway Reorganization Scheme published in 1954 was put into operation in the Eastern Region of British Railways. It will be recalled that since the end of the year the same has been done on the Midland Region. Progress is reported with the British Railways

¹ See *The Accountant*, May 18th, 1957, page 581.

Productivity Council which has been studying the problem of productivity and the application of work study methods and the use of bonus incentive schemes. Up to the end of last year about forty work study schemes had been carried out on British Railways and a further sixty were under investigation.

Decontrol of Shop Tenancies

Premises used partly for the purpose of a trade or business and partly for residential purposes are also controlled by the Rent Acts if their rateable values are within the statutory limits of £100 in London and £70 elsewhere. Premises of this description will now cease to be controlled on July 6th, 1957, if their rateable values on November 7th, 1956, happened to be in excess of £40 (for London or Scotland), and £30 (elsewhere). The tenant of such premises, however, will be in a different position from a tenant of wholly residential premises. The latter, subject to certain reservations, will still enjoy the protection of the Rent Acts during the 'standstill period' which will not expire until October 6th, 1958.

The shop or business tenant who resides on his premises must, however, now look not to the Rent Acts but to Part II of the Landlord and Tenant Act,

1954, for protection. This appears to be the effect of paragraph 2 (6) of the Transitional Provisions of the Fourth Schedule of the Rent Act, 1957, the terms of which, however, might have been expressed in clearer language.

As the shop tenant, who occupies the residential portion of the premises himself, is now thrown back on the 1954 Act, his contractual tenancy will now continue until it is terminated by an effective notice of termination under the 1954 Act. A mere notice to quit will be insufficient for this purpose. On receipt of such notice, the shop tenant must serve the counter-notice required by the 1954 Act, and apply to the Court for a new tenancy, and otherwise observe the procedure and the time limits prescribed.

If the tenant occupies the whole of the premises himself, or if the residential portion is occupied by a person engaged in connection with the business of the shop, the new tenancy will be of the *whole* of the premises, including the residential portion. Otherwise, and particularly if the residential portion has been sublet, it will be limited to the shop portion alone. The subtenant of the residential portion in that event would enjoy, *ceteris paribus*, the limited protection of the Rent Acts during the standstill period.

Finance and Commerce

'Take-over' fever in store shares has dominated stock-market activity in the past week and has taken attention away from another slow rally in gilt-edged stocks. The latter section now has a more settled air than for some time past and high yields on dated stocks appear to be attracting some investment support.

Jenson & Nicholson

Simplification of company accounts is a matter upon which much thought has been given, much criticism offered and some action taken. Our reprint this week shows the method employed by the Jenson & Nicholson Group Ltd in adding a simplified form of account to the normal presentation. The inclusion of the group sales figure in the 'simplified' account, it may be noted, gives information beyond that provided in the accounts proper. In drawing our attention to the accounts, the company's secretary mentions that he thinks the company is the first in the paint industry to give the sales figure.

The Jenson & Nicholson Group is one of the growing number of industrial companies with a profit-sharing scheme allied to investment in the ordinary shares of the company. The small increase in the amount of issued ordinary share capital arises from the distribution of shares under the company's 'profit-sharing investment scheme' and the accounts contain a provision of £26,150 for the scheme. That amount, after deduction of income tax, will be used by the trustees for further investment in

ordinary shares to be allotted to eligible employees.

Commenting on the scheme, Mr Bernard J. Nicholson finds it gratifying that at the end of last December over 85 per cent of the total shares allotted had been retained by the employees and he sees the scheme as a means of strengthening the link between shareholders, management and staff. The board have received a number of inquiries from other companies considering instituting a similar scheme.

For Employees

'It has been my practice for several years', says Mr W. A. Grierson, the chairman of Hayeshaw Ltd (spinners and weavers) 'to post a letter to the home of each of our 2,000 employees to reach them a few days before the annual meeting.' Mr Grierson expresses to the employees as individuals a personal note of thanks for their services, deals with aspects of the business including 'some of the ways in which we can all help to improve performance', and encloses a financial statement.

'We have abundant evidence', he says, 'that our employees appreciate being brought into the picture in this frank manner'. To this method of communication as well as to the monthly discussions at the elected joint committees at the branches, and the encouragement of day-to-day information, he attributes 'much of the friendly support which we enjoy in improving quality and raising productivity'.

There is a great deal of interest in just how to

frame financial statements for employees and we reprint the form used by this company.

STATEMENT FOR EMPLOYEES

Our Income and Expenses

For Year ended 30th March, 1957

Income CHARGED TO CUSTOMERS FOR PRODUCTS SOLD ....£3,918,989	
All Expenses—Except Wages and Salaries	
Raw Materials	Paid for Cotton, Fibre and other Synthetic Fibres .....£2,439,174
Supplies and Expenses	Paid for Maintenance Materials, Stores, Coal, Electricity, Rates, Fire Insurance, Interest on Bills, etc. 296,539
Replacement	Set aside for Replacement of Wear and Tear on Machinery and Buildings 80,800
Loan Interest	Paid on money borrowed for new machinery 11,250
Taxes Paid to Government	P.A.Y.E. Tax on Wages and Salaries 46,243 Tax on Year's Profit... 109,810
Employee Benefits	Pensions, Paid to Insurance Companies for Employers' Contributions to Pensions Schemes 27,988 Paid to the Prudential for Employers' Contributions to Pensions Schemes 10,551 National Insurance, Paid to Government for Employer's Contributions 25,419 Paid to Government for Employers' Contributions 22,619
Total of All These Expenses.. 3,070,393	
Balance Remaining for Employees and Shareholders.. 848,596	
Wages and Salaries	Paid to Employees in Wages and Salaries (Net) 724,825
Dividends Paid to Shareholders (Net).... 123,771	
Balance Reinvested in the Business to strengthen the Company and Provide for Future Needs.... 41,508	
Balance 82,263	

- NOTES: (1) The money we have set aside for replacement of wear and tear (depreciation) only provides for replacement of our older machinery at its original pre-war cost. But spinning machinery today is nearly five times dearer than in 1938 so we must reinvest profits in the business to pay for this higher cost of machinery when we come to replace it to keep our plant fully up to date. Our capital outlay on replacement and modernization of machinery at steadily rising prices has averaged £121,000 for the last 10 years.
- (2) In addition, we have to carry higher stocks of long staple cottons to assure regular employment. At 30th March the stock value per employee stood at £508 compared with £330 a year ago.
- (3) The last figure shown above, £82,263, which we have reinvested in the business this year is barely adequate for these two purposes. You will see we need a bigger surplus in future to protect the long-term interests of all the members of the firm.

Taxation Change

A change in showing taxation is noted by Mr William J. Roach, chairman of Grattan Warehouses Ltd, of Bradford. This company's accounts in the past have always shown future income tax under the heading, 'Amounts set aside' which stands below the reserves group. The figure represented fifteen months' Schedule D, the balance of taxation being shown under current liabilities.

Under the new layout, future income tax (in amounts set aside) will show the full amount for only twelve months of Schedule D and the taxation under the heading of 'Current liabilities' will show the

balance. This, Mr Roach points out, has the effect of increasing the ratio of current taxation to future taxation and, consequent on this, a reduction in total net assets. The comparisons, of course, have been adjusted to the new basis so that the direct comparison between the years (to December 31st) has been preserved.

The Gilt-edged Market

Government stock quotations fell steadily in the second quarter of the year. At the end of June prices were little removed from the year's lowest levels. Pressure on sterling, the critical position of gold and dollar reserves, continued inflation and the absence of any pointer towards lower interest rates were the principal factors.

	March 29th	June 30th
Consols 4% 1957 aft. ..	80½	74½ x.d.
Consols 2½% 1923 aft. ..	53½ x.d.	50½ x.d.
Conversion 3½% 1969 ..	86½	83½
Conversion 3½% 1961 aft. ..	72½	68
Funding 4% 1960-90.. ..	89½ x.d.	87½
Funding 3½% 1999-2004 ..	78½	72 x.d.
Funding 3% 1966-68 ..	82½	79½
Funding 3% 1959-69 ..	81½	79
Savings 3% 1955-65 ..	88	87½
Savings 3% 1960-70 ..	79½	76½
Savings 3% 1965-75 ..	75½	71½
Savings 2½% 1964-67 ..	80½	79½
Treasury 3½% 1977-80 ..	79½	74½
Treasury 3½% 1979-81 ..	78½	74½
Treasury 2½% 1975 aft. ..	53½	50½
Victory 4% by 1976 ..	93½	92½
War 3½% 1952 aft. ..	73½	68½
British Electric 4½% 1967-69	94½	91½
British Electric 4½% 1974-79	89½	85½
British Electric 3½% 1976-79	80½	74½
British Electric 3% 1968-73 ..	77½	73½
British Electric 3% 1974-77 ..	75½	71½
British Gas 4% 1969-72 ..	88½	85½
British Gas 3½% 1969-71 ..	85½	81½
British Gas 3% 1990-95 ..	69½	64½
British Transport 4% 1972-77	87½	81½
British Transport 3% 1968-73	77½	73½
British Transport 3% 1978-88	70½	64½
Conversion 4½% 1962 ..	98½	98½
Conversion 4% 1957-58 ..	98½	99½
Conversion 2% 1958-59 ..	95½	96½
Exchequer Stck. 3% 1962-63	92½	90½
Exchequer Stck. 2½% 1963-64	87½	86½
Exchequer 3% 1960 ..	95½	96½
Exchequer 2% 1960 ..	93½	93½
Funding 2½% 1956-61 ..	92½	92½
Serial Funding 2½% 1957 ..	98½	99½
War 3% 1955-59 ..	96½	96½

Money Market

Treasury bill conditions were little changed on June 28th. Applications for the £260 million of bills offered totalled £385,125,000 and bidding at £99 0s 9d the market's allotment was 61 ppr cent. The average rate was virtually unaltered at £3 17s 1.07d per cent. This week's offer is £260 million.

JENSON & NICHOLSON GROUP LTD. AND SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1956

	1956 £	1955 £
Profit before charging or crediting items enumerated below (Notes 1 and 2)*	796,791	808,718
Add:		
Income from Trade Investments	8,573	5,635
Income from other Investments	126	154
Interest	5,661	9,031
	14,360	14,820
Deduct:		
Depreciation and Amortisation (Note 5)*	163,054	139,043
Interest on Debentures and Fixed Loans	1,523	1,467
Auditors' Remuneration	7,843	6,463
Preliminary Expenses and Expenses of Issue in Subsidiary Companies	—	478
Provision for Employees' Profit Sharing Investment Scheme	26,150	24,900
	198,570	172,351
Profit Before United Kingdom Taxation	612,581	651,187
Deduct:		
U.K. Taxation on Group Profits:		
Profits Tax	56,379	46,961
Income Tax	229,573	248,049
	285,952	295,010
Less: Over-provision in prior years	2,000	3,000
	283,952	292,010
Group Net Profit for Year after deduction of Tax..	328,629	359,177
Deduct: Profit of Subsidiary Companies attributable to outside Shareholders	50,568	42,425
Holding Company's Proportion of Group Net Profit for the Year	278,061	316,752
Add: Balance brought forward from previous year attributable to the Group	279,343	163,086
	557,404	479,838
Deduct:		
Transfers to General Reserves	112,939	104,007
Transfers to Pension Reserves	3,182	12,859
Dividends payable and proposed by the Holding Company	87,925	83,629
	204,046	200,495
Balance Carried Forward per Balance Sheet	£353,358	£279,343

* (Notes not reproduced. — Editor.)

THIS IS HOW THE JENSON & NICHOLSON GROUP OF COMPANIES
FARED IN 1956

	REVENUE	£
The sales made by all the companies of the Group at home and overseas were	..	9,532,400
After deducting production and trading expenses, providing for taxes and allowing for outside shareholders' interest, the available profit was	..	278,061
Dividends to shareholder took	..	87,925
Leaving an amount to be ploughed back into the business in the form of shareholders' funds for expansion, modernisation and contingencies of	..	£190,136

	CAPITAL	£
The above amount of	..	190,136
with new capital arising from the Employees' Profit Sharing Investment Scheme	..	18,614
making a total of	208,750	see (3) below
has been added to the shareholders' funds which at 1st January, 1956, were	3,282,964	.. (2)
so that shareholders' funds at 31st December, 1956, amounted to	£3,491,714	.. (1)

	Represented by:	£
Share Capital	..	453,231
Preference	..	616,103
Ordinary	..	1,069,334
Reserves	..	1,119,071
Capital	..	1,303,309
Revenue	..	2,422,380
	£3,491,714	

The amount of £3,491,714 is invested in the various companies in the Group in the following way:—

	(1) 1956 £	(2) 1955 £	(3) Plus or Minus £
Fixed Assets	1,802,658	1,608,175	+ 194,483
Goodwill	243,480	132,964	+ 110,516
Investments	..	..	..
Current Assets	..	..	..
Less Liabilities (including Future Taxation)	1,982,367	1,998,087	- 15,720
	4,028,505	3,739,226	+ 289,279
Interest of Outside Shareholders in Group Companies	536,791	456,262	+ 80,529
Net Assets of the Group	£3,491,714	£3,282,964	+ £208,750

HOW THE £190,136 HAS BEEN USED.

JENSON & NICHOLSON GROUP LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET 31st DECEMBER 1956

July 6th, 1957

THE
ACCOUNTANT

17

	1956	1955
I. Share Capital of Holding Company		
6 per cent. Cumulative Pre-Preference Shares of £1 each	200,000	153,231
6 1/2 per cent. Cumulative Preference Shares of £1 each	100,000	100,000
7 per cent. "A" Cumulative Preference Shares of £1 each	200,000	200,000
Ordinary Shares of 5s. each	750,000	616,103
	<u>£1,250,000</u>	<u>£1,069,334</u>
II. Capital Reserves		
General	238,654	238,654
Share Premium Account (Note 11)*	830,417	817,906
	<u>1,069,071</u>	<u>1,056,560</u>
III. Fixed Assets		
Revenue Reserves and Undistributed Profits (Note 11)*	50,000	50,000
Preference Dividend Equalisation Reserve	791,775	678,856
General Reserve	64,350	64,350
Stock Reserves	40,624	40,624
Pension Reserves	43,806	279,343
Profit and Loss Account	353,358	1,113,173
	<u>1,303,309</u>	<u>1,113,173</u>
IV. Future Taxation (Income Tax, 1957/58)		
Debentures and Secured Loans	3,491,714	3,282,964
Current Liabilities and Provisions	233,278	240,200
Bank Loans and Overdrafts (Secured £369,766)	16,965	15,419
Creditors, Bills Payable and Accrued Charges	493,034	414,589
Provision for Taxation	1,489,778	1,296,349
Provision for Employees' Profit Sharing Investment Scheme	398,842	333,592
Dividends, accrued and proposed, less Tax	26,466	24,900
	<u>55,152</u>	<u>54,624</u>
	<u>2,463,272</u>	<u>2,174,174</u>
VIII. Outside Shareholdings (Note 12)*	<u>536,791</u>	<u>456,262</u>
	<u>£6,742,020</u>	<u>£6,139,019</u>

BALANCE SHEET 31st DECEMBER 1956

	1956	1955
I. Share Capital		
6 per cent. Cumulative Pre-Preference Shares of £1 each	200,000	153,231
6 1/2 per cent. Cumulative Preference Shares of £1 each	100,000	100,000
7 per cent. "A" Cumulative Preference Shares of £1 each	200,000	200,000
Ordinary Shares of 5s. each	750,000	616,103
	<u>£1,250,000</u>	<u>£1,069,334</u>
II. Capital Reserves (Note 11)*		
General	123,528	123,528
Share Premium Account	830,417	817,906
	<u>953,945</u>	<u>941,434</u>
III. Revenue Reserves and Undistributed Profits (Note 11)*		
Preference Dividend Equalisation Reserve	50,000	50,000
General Reserve	500,000	450,000
Pension Reserve	35,000	35,000
Profit and Loss Account	157,350	134,957
	<u>742,350</u>	<u>669,957</u>
	<u>2,765,629</u>	<u>2,674,622</u>
IV. Subsidiary Companies		
Balances owing on Loan and Current Accounts	16,609	327,368
V. Current Liabilities and Provisions		
Creditors, Acceptances and Accrued Charges	39,954	33,037
Provision for Taxation	13,293	33,722
Dividends, accrued and proposed, less Tax	55,152	54,624
	<u>108,399</u>	<u>121,383</u>
	<u>£2,890,637</u>	<u>£3,123,373</u>

* (Notes not reproduced. - Editor.)

Current Law

Compensation for Demolished Premises

Premises belonging to Associated London Properties Ltd became a total loss from war damage, but the War Damage Commission made a cost of works payment (not a value payment) in respect thereof (thus exercising its power under Section 20 of the War Damage Act, 1943). The company proposed to put up a new building, the cost of erecting which would have been considerably less than the cost of reinstating the original building, but the value of the new building would have been greater than that of the old if reinstated. To this proposal the Commission agreed, but before work on the new building had started, the local authority, the Paddington Borough Council, served notice to treat on the company pursuant to a compulsory purchase order. The question arose as to the amount of compensation payable. In *Paddington Borough Council v. War Damage Commission; Associated London Properties Ltd v. Paddington Borough Council* ([1956] 3 All E.R. 753) the Court of Appeal held that the company was entitled under Section 53 (1) (a) of the Town and Country Planning Act, 1947, to compensation calculated on the basis of the value of the new building which it had been proposed to build. While the Court emphasized that the facts of the case were special, it seems not unlikely that there are other cases where somewhat similar facts exist.

Sale of Goods: Measure of Damages

In *Charter v. Sullivan* ([1957] 1 All E.R. 809), the plaintiff, a motor-car dealer, claimed from the defendant £97 15s, which he claimed was his loss of profit on the sale of a Hillman Minx motor-car which the defendant had agreed, but failed, to buy. Following the defendant's breach, the plaintiff re-sold the car at the profit which he would have made had the defendant completed the contract. The Court of Appeal, reversing the decision of the judge of the Aldershot County Court, held that the plaintiff was entitled to nominal damages only, since the measure of damages was that enacted by Section 50 (2) of the Sale of Goods Act, 1893, which provides:

'The measure of damages is the estimated loss directly and naturally resulting, in the ordinary course of events, from the buyer's breach of contract'

and the plaintiff had not proved any loss of profit, since, on the evidence, he had sold the same number of cars of this model and made the same profit as he would have done had the defendant carried out his contract. It is important to note that the decision of the Court of Appeal turned on the fact that the plaintiff could always find a market for every Hillman Minx car which he obtained from the manufacturers. The Court distinguished *W. L. Thompson Ltd v. R. Robinson (Gunmakers) Ltd* ([1955] 1 All E.R. 154) where the facts were very similar in that Upjohn, J.,

had before him a claim for damages in respect of the defendant's refusal to perform a contract for the purchase from the plaintiff of a Standard Vanguard motor-car, but where there was evidence that there was no shortage of cars of that type to meet all immediate demands in the locality and the plaintiff accordingly recovered the whole of the profit which he would have received on the performance of the contract by the defendant.

Modification of Restrictive Covenants

In *Driscoll v. Church Commissioners for England and Others* ([1956] 3 All E.R. 802) the purchaser of leasehold premises from the Church Commissioners sought to have modified under Section 84 (1) of the Law of Property Act, 1925, a restrictive covenant which attached to the user of the land, namely, a prohibition against using the premises

'for any trade or business or otherwise than as a private dwelling-house save with the previous written consent of the lessor'.

The lessee wished to use the houses as hostels and residential clubs for people from overseas, but the Commissioners were only prepared to permit such user on conditions more stringent than the lessee was prepared to accept.

The Lands Tribunal found that the houses concerned were so large that few people could afford to keep them up as private residences today, but that, although other similar houses in the district had been split up into flats, the neighbourhood was still essentially a residential one. In the circumstances, the Tribunal came to the conclusion that the covenant in question could not be regarded as obsolete.

The Court of Appeal dismissed the lessee's appeal from this decision, finding that the Lands Tribunal had reached a decision which it was entitled to reach on the evidence, and that, even if the restriction were obsolete, the Tribunal had a discretion whether to discharge or modify it and, in finding it unreasonable to modify it in the manner sought by the lessee, had not exercised that discretion wrongly.

Education in Government

The testator in *Re The Trusts of the Arthur McDougall Fund, Thompson and Others v. Fitzgerald and Others* ([1956] 3 All E.R. 867) gave a fund to trustees and directed them to hold it and the income thereof

'upon trust to pay and apply such income from time to time for such charitable purposes. . . as in the absolute discretion and opinion of the trustees (i) shall best advance and encourage education or other charitable purposes beneficial to the community in connection with the art or science of government or other branches of political or economic science, (ii) shall most tend to encourage the study of

methods of government or civil commercial or social organizations'.

Without limiting the generality of the foregoing, the trustees were empowered to apply the income for

'(a) the advancement of learning in matters affecting forms of government and representative assemblies

... (b) the encouragement of interest in and knowledge of the science of government and civics.

The trustees were to be at all times members of the Proportional Representation Society. The principal object of that society is to alter the law at present in force (so as to alter the method of voting), a purpose which, on the authorities, clearly is not charitable. Upjohn, J., rejected an argument that the real object of the trust was to further the political objects of the society and held that the trust was created for charitable purposes: where a charitable trust was declared the fact that the trustees must be persons of a certain persuasion could not really affect the matter.

Change of Domicile

An interesting point on domicile, of great practical importance not only so far as concerned death duties but also in regard to the devolution of the deceased's estate, was decided by Danckwerts, J., in *Re Scullard's Estate, Smith and Another v. Brock and Others* ([1956] 3 All E.R. 898). The testatrix was married in 1893, but in 1908 she left her husband and never returned to him, though there was no divorce. So long as he was alive, therefore, she was bound to retain his domicile, which was English. He died in February 1955.

The testatrix resided in Guernsey from 1910 till about 1921 and returned there in 1946 or 1947. On her return she expressed the intention of remaining there for the rest of her life. Her personal possessions were all moved there, her realizable investments were sold and the proceeds reinvested in bearer bonds or War Stock and taken to Guernsey, and the trustees of certain settled funds in which she had a life interest reinvested them in securities which would be exempt from United Kingdom income tax on the death of a person who was not domiciled in the United Kingdom. She died in March 1955, some six weeks after her husband, and in ignorance of his death.

Holding that the testatrix had an intention to acquire a domicile of choice in Guernsey which became effective on the death of her husband, the learned judge said (at page 904):

'I cannot see why an intention which, as I found on the evidence, the testatrix was plainly shown to have in her mind during her lifetime, namely, to make her permanent home in Guernsey, but which could not be effective in law until her husband was dead, should not be effective in law in accordance with her intention when he died and she survived him. I have come to the conclusion in the present case that the intention which the testatrix had formed during her lifetime was only prevented by a legal situation from being transferred into a legal fact,

and I do not see why it should not be assumed that her intention continued after the death of her husband, and why one should come to the conclusion that some new overt act was required when previous evidence is all consistent with there having been no different intention during her life.'

Sale of Motor-car: Effect of Registration Book

The plaintiff company in *Central Newbury Car Auctions Ltd v. Unity Finance Ltd and Another (Mercury Motors, Third Parties)* ([1956] 3 All E.R. 905) delivered a car, together with its registration book, to C. in anticipation of a hire-purchase transaction for the acquisition of the car from it becoming binding. C. sold the car to the third parties, representing himself as A., the last purchaser of the car to be named in the registration book. The second defendant acquired the car from the third parties by hire-purchase, the car being sold on that occasion to the first defendant, a finance company.

On a claim by the plaintiff against the defendants for damages for conversion it was contended that the plaintiff was estopped by its conduct in permitting C. to have the registration book, conduct which had greatly facilitated his fraud. The Court of Appeal by a majority (Denning, L.J. (as he then was) dissenting) held that the registration book was not a document of title, that the entrusting of it to C. did not constitute a representation that he was entitled to deal with the car as owner, that the plaintiff was not estopped, and that it was entitled to succeed.

Innocent Misrepresentation in Contract for Sale of Land

The plaintiff in *Watson v. Burton* ([1956] 3 All E.R. 929) sought an order for specific performance of a contract for the sale to the defendant of an industrial property. In the particulars of sale prepared by the auctioneer the area of the property was stated to be some 3,920 square yards. After the sale, but before completion, however, the defendant discovered that the area was only some 2,360 square yards, the greater figure having been given in error. He was nevertheless prepared to complete provided that he received adequate compensation, and he proceeded to have certain repairs put in hand and to pay the balance of the deposit to the stakeholders, but, being unable to agree the compensation with the plaintiff, he subsequently rescinded the contract, and at the trial of the action he was no longer willing to accept compensation.

Wynn-Parry, J., pointed out that in a contract for the sale of land the question whether or not a misdescription of the property, given innocently, is or is not substantial is in each case a matter for the Court, and concluded that in the case before him the misdescription was substantial, so that the defendant was entitled to rescind, and had not lost his right to do so by completing payment of the deposit and having repairs put in hand.

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

The Institute's Pension Scheme

SIR, - The last paragraph dealing with Section A of the above scheme in your article published on June 29th may, I think, be misleading to members contemplating paying premiums under that section. It states that the pension secured by a man aged 40 next birthday joining the scheme would be at least 4 to 5 per cent larger than the pension obtainable at the present time under a comparable contract with a life office.

Section A of the Institute's scheme is, in effect, a single premium scheme with guaranteed rates, but you appear to be comparing those rates with the level annual premium rates of insurance companies. There are many insurance companies offering better single premium rates at present than those of the Institute's scheme. For instance, a man aged 40 next birthday who pays a contribution of £100 secures a pension of £25 19s 0d from age 65 but according to a table from an insurance company in front of me he could obtain a pension of £28 15s 0d. As the insurance company concerned also contracts to return the premiums with 4 per cent compound interest in the event of death before pension age and the pension is guaranteed for five years, comparison of the rates at other ages is interesting and is shown below:

Age next birthday	Institute's pension			Insurance company's pension		
	£	s	d	£	s	d
30	38	8	0	43	17	0
35	31	12	0	35	12	0
45	21	7	0	23	3	0
54	14	8	0	14	13	0

Insurance companies do not guarantee their single premium rates and therefore members of the Institute would be wise to pay the 'entrance fee' to the Institute scheme of £50 before June 30th, 1960. They will then be able to compare each year the Institute's rates with those obtainable from insurance companies and choose the most advantageous. At present insurance companies offer better rates but when interest rates are relatively low the Institute's scheme will be the cheapest.

Yours faithfully,
ALAN WHITTAKER.

Sunderland.

[Our correspondent's suggestion would involve members of the Institute in the trouble of keeping a close watch on the insurance markets (and of receiving their pensions from a number of different sources), but if a Chartered Accountant in practice has time for this activity, it will doubtless secure for him some financial advantage! - Editor.]

The Proposed Integration Scheme

SIR - A number of those present at the meeting of The Society of Incorporated Accountants held at the Royal Festival Hall on June 19th who had wished to speak were prevented from so doing by the undue proportion of time taken up by earlier speakers who were opposing the scheme.

I feel that two points should be made clear in relation to the views put forward by members in municipal and public offices and by Mr Barrowcliff.

Mr Barrowcliff's sincere defence of the bye-law candidate system took no account of the changes in economic conditions over the past twenty years, and his opposition to the integration scheme on the grounds that there was no longer to be any 'open door' was quite unrealistic. I am not forgetting that, like Mr Barrowcliff, I was a bye-law candidate, but that was twenty-five years ago - I should certainly not be one today.

The speakers for the municipal group, if I may use that expression, voiced their objections in much the same terms as they had done at the London District Society meeting held on May 14th - with one important difference. At the earlier meeting most of their speakers (and they were numerous) had stressed the fact that the proposals did not affect them personally so far as their future was concerned. This very material point was not referred to at the later meeting.

The situation can hardly have changed in the intervening five weeks, and their fierce opposition to the scheme amounts to little more than an attempt by a minority to prevent the large majority who are engaged in professional accountancy from enjoying the benefits of integration - a matter of vital importance to them, to the Society, and to the accountancy profession as a whole.

It is to be hoped that many of those who feel disappointed that the scheme does not fully embrace all members of the Society will, when they come to vote on the poll, show that same breadth of vision as did the members of the Institute who had, superficially, much less to gain.

Yours faithfully,
G. MORGAN, F.S.A.A.
London, EC2.

Costing Terminology

SIR, - I have read Mr Clothier's letter in your last issue and I would draw the attention of your readers to this Institute's publication entitled *Terminology of Cost Accountancy*, which I feel may help to solve the problem rightly raised by your correspondent.

Yours faithfully,
STANLEY J. D. BERGER, Director,
THE INSTITUTE OF COST AND
WORKS ACCOUNTANTS.
London, W1.

Trading by Liquidator

SIR, - Following an unsuccessful appeal before the Special Commissioners, a company owning lands was assessed on a trading basis and the balance of land unsold was treated as trading stock.

The company later went into voluntary liquidation, and the liquidator received certain compensation monies under the Town and Country Planning Act, 1954. The liquidator contends that all trading activities of the company ceased as from the date of the resolution to wind-up, but the Inspector of Taxes states that he is unable to accept this view and in this case the trade consisted of the realization of certain assets treated as stock-in-trade, and in seeking to realize those assets the liquidator is doing no more or less than was done previously and the compensation is therefore a trading receipt.

We shall be glad to learn whether any of your readers have had similar experience, and whether any

statutory authority or case law can be quoted in support of the liquidator's contention.

Yours faithfully,
KESCO.

Income Tax: New Company

SIR, - Can any of your readers suggest a method of indicating the charge for income tax in the first accounts of a new company? If the necessary provisions and a reserve for future taxation based on these first accounts are made, then it seems that the total charge for tax at 8s 6d in the £ will generally exceed the profit earned.

The point is always difficult to explain to the proprietors. Are there any suggestions as to how it can be successfully shown to them by narrative, layout, etc.?

Yours faithfully,
DAVID REID.

London, W5.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ANNUAL CHURCH SERVICE

At the conclusion of the Council meeting held last Wednesday (to be reported in next week's issue), the President and members of the Council were joined by other members of the Institute for the annual service held at noon at the church of St Margaret, Lothbury, EC2.

The service, which was conducted by the Rector, the Rev. A. John Drewett, M.A., B.Sc., commenced with the hymn 'Blest are the pure in heart'. After the singing of Psalm 115, the lesson, Isaiah, xl, 12-31, was read by the President, Mr W. H. Lawson, C.B.E., F.C.A.

The *Jubilate Deo* was followed by prayers for the Queen and Royal Family, for the High Court of Parliament, for the City of London and for the Institute, and the General Thanksgiving.

The hymn 'Father, hear the prayer we offer', followed, and the sermon was then delivered by the Rev. Austen Williams, M.A., Vicar of St Martin-in-the-Fields.

The Sermon

The man did solemnly protest unto us, saying, Ye shall not see my face except your brother be with you. (Genesis, xliii, 3.)

The story, tucked away deep in the Old Testament, is almost forgotten today. But there it still is, for the student and the patient reader - the story of how Joseph was sold into captivity, of how he rose to power in Egypt, and of how, out of famine-ridden Palestine, his brothers dragged their weary way, to seek help and food. And they met him, but all those long years after their treachery, they didn't know him. And he said he wouldn't entertain them unless they brought their brother Benjamin with them. So they returned with a gift and their brother and their needs were met and more than met.

The Theme of the Bible

The strange events of that ancient story cannot mean a very great deal today, but one short sentence stands out, carrying with it more of power and of judgment than perhaps we're accustomed to today: 'Ye shall not see my face except your brother be with you'. There, in astonishing simplicity, is the theme of the whole Bible.

Read again the parable of Dives and Lazarus in the Gospel according to St Luke, in the light of that sentence. That same theme is clear in the bitter humour and stark precision with which the ultimate failure of one human life is laid bare. A certain rich man had thought to see the face of God by right of class, status, and wealth - but without his brother. He thought Lazarus did not matter; he cared neither about his sickness nor about his hunger. And he died and was buried; and in hell (the story runs) he lifted up his eyes being in torment, and seeth Abraham afar off, and Lazarus in his bosom. For the first time in his life he really saw his brother.

The same lesson runs right throughout the New Testament. The great charge Jesus made against the religious folk of his time was that they came to him without their brother. They thanked God, they took credit to themselves, that they were not as other men were. They condemned; they excluded; they lived upon other men, and yet they never cared to give them a brother's place. And they in their turn were rejected, because neither their righteousness nor their ritual were enough to make amends for their central failure - they had sought God leaving their brother behind.

Searching and Finding

The way and purpose of God as Jesus lived and preached it, was not as they described it - the smoke

of incense, the intricate life of religious observance. For Jesus it was always a searching and a finding – a roadside casualty, a publican, a sinner, a leper, a lost coin, a missing sheep, a guest for a vacant chair – Zacchaeus, Matthew, Peter, Mary Magdalene. It was always the same. Jesus himself could not see the face of God without these – that was why he was crucified as one of them; why he hung between two thieves. At the last there was that intensely dramatic moment, which held so much of the true victory of calvary: 'Jesus, remember me when thou comest into thy Kingdom'. 'Today thou shalt be with me in paradise'.

Jesus, when he returned to God, returned not alone, but took his brother with him; he had as companion in death and in paradise a man counted utterly unworthy, past praying for. And perhaps the loveliest of all the stories he told was that of the prodigal son; it comes so very, very near our own life. His brother rebelled at the return of the waster, but was told that it could not be otherwise than that he should be made welcome – 'ye shall not see my face except your brother be with you'. That – a phrase from an old story – is, in the last analysis, the Gospel of Christ. And it's written large across the history of the world. The struggles of the last century reveal it as the principle over which, above everything else, men have fought and are still fighting.

We have learnt and are now learning with bitter harshness and suffering, that the sentence of God is irrevocable; that the racialisms, the nationalisms, the class-consciousness, the sect antagonisms – all the means by which men seek the face of God, or of peace, or of happiness, leaving their brother behind, caring nothing for him, are devilish; that unless and until the coloured peoples of the world are given a full brother's place, there can never be peace.

We are learning in every country in the world that until all men and women are given a real brother's place, whether they be employer or employee, miner, docker, sailor, railwayman, clerk, or what you will, there can never be peace. The struggle may be embittered and twisted into falsehood, but beneath it

there remains the fact – for it is a fact, and not a dream. It is not only man's wish, it is God's purpose. 'Ye shall not see my face except your brother be with you.' First be reconciled to thy brother, then come and offer thy gift.

Wide Issues

These are wide issues. We find, however, that they have their source and origin in our own lives. We are all of us striving in our own way to see the face of God. For there is a famine in the world, and we like our fellows, are hungry for truth and beauty and goodness; for stability and inspiration, and power. I believe we find them only in so far as we bring our brother with us in the search. The key to the power and peace of God is in the hand of the other man – stranger, neighbour, friend, workmate. The bringing is not by compulsion, but by love, by prayer, by imaginative understanding, by care.

There are some who can only pray – there is no surer way of bringing a person to God than by unswerving loyalty in prayer. The great part of us have other gifts, other opportunities, but they avail nothing if we use them selfishly. 'Ye shall not see my face (whatever your nation or colour or cleverness or rightness) except your brother be with you.' Let us listen to the words of Christ himself:

'Come ye blessed of my Father, inherit the kingdom prepared for you from the foundation of the world; for I was anhungered and ye gave me meat; I was thirsty and ye gave me drink; I was a stranger and ye took me in; naked, and ye clothed me; I was sick and ye visited me; I was in prison and ye came unto me. In as much as ye have done it unto one of the least of these my brethren ye have done it unto me.'

Let us take that into our hearts now – believe it and perform it.

After the sermon and during the singing of the hymn 'All people that on earth do dwell', a collection was taken for the Chartered Accountants' Benevolent Association, which amounted to £39 10s.

For Students

ENGLISH LAW Vicarious Liability

The principle of vicarious liability is one under which an employer is held liable for torts committed by his employee in the course of the employment. Thus, if a lorry driver is engaged to drive from A. to B. on behalf of his employer, and in so doing knocks down a woman at C., the employer will be held liable along with the employee for any injury or damage suffered. If inadequate insurance cover exists, the loss will most probably fall upon the employer; being usually a person or company of more substantial means than the employee, the injured party will prefer to sue the employer.

Where vicarious liability exists there is no way by which the employer can avoid being a party to litigation if the injured party sues. The fact that the employer may have told the employee not to commit the particular act complained of, or that the employer knew nothing about the particular tort at the time, is quite irrelevant.

Two points on this matter, however, frequently

provide scope for examination questions. In the first place, the tort must be committed by a servant and not by an independent contractor. A servant is a person who works for another upon the terms that he shall be subject to the control of that other person as to the manner in which he works. Labourers, apprentices and chauffeurs are examples of servants. On the other hand, skilled craftsmen who are called in for a particular purpose only – e.g. chimney sweeps, plumbers, electricians – are not the servants of the householder, although they may be engaged to undertake specific tasks on behalf of the householder; being skilled persons, the law presumes that the person engaging them will not instruct them as to the precise manner in which they are to carry out their duties. Vicarious liability exists in all cases with a master and servant relationship, but it does not exist in connection with independent contractors.

Secondly, the tort must have been committed in the course of the employment. If, in the above example, C. is on the road from A. to B., the employer will be

liable. He will also be liable if C. is on a detour from A. to B. The employer can avoid liability only if he can show that the accident did not arise in any manner from the course of the employment, i.e. that C. is in the opposite direction from A. to B.

Although the master is liable for a tort committed by his employee in the course of his employment, yet he need not necessarily be out of pocket over such. If judgment is entered against him on a civil action the employer has the right to recover such costs and damages from the employee. Vicarious liability arises more to protect innocent third parties than to inflict penalties upon employers, and the fact that the employer is usually left to bear the costs arises only because employers seldom find it worth while to sue their own employees, who may be of slender means.

MERCANTILE LAW

Lien

A person who holds property of another and has carried out work upon it, is entitled to retain the property until he receives payment for his work thereon. This power to retain property is said to be a possessory lien, and examples of such a right are seen, for example, in the case of a dry-cleaner who has cleaned a suit, an accountant who has prepared a balance sheet, a garage that has serviced a car, or a carrier who has carried goods.

A possessory lien normally gives no right to sale and the possessor has merely such rights as belong to a possessor, as distinguished from an owner.

Possessory lien is usually 'particular lien': that is to say, the right is one to retain only those particular goods in connection with which the debt arose.

However, there is also possible a 'general lien' which may arise from long-standing custom or from contract, and in this case goods may be retained not only for the debt incurred in connection with them, but also for the general balance owing by their owner to the person exercising the right of lien.

Among the trades and professions which have the right to 'general lien' are factors, bankers, solicitors, stockbrokers, and sometimes insurance brokers.

H.M.S.O. PUBLICATIONS

Post Office Accounts

Each year a set of 'commercial accounts' is published in connection with the activities of the General Post Office. These are described as being commercial accounts, since they are prepared on normal commercial bases, unlike the majority of Government accounts which are merely on a cash basis. The accounts, in fact, contain a reconciliation between the cash accounts and the commercial accounts.

The last accounts so published were those for the year ended March 31st, 1956¹. Apart from giving financial information, these commercial accounts give considerable information in statistical form. For example, at March 31st, 1956, there were 1,760 Crown post offices and 23,003 sub-offices; the number of telephone stations was 6.8 million; and there were 5,944 local telephone exchanges.

During 1955-56 the Post Office dealt with the posting of 9,700 million letters and 238 million parcels. Telephone traffic consisted of 3,865 million local, 333

million trunk, and 4 million overseas calls. Inland telegrams numbered 21 million, telegrams to the Irish Republic, 1 million, and overseas telegrams 21 million.

Turning to the accounts, these consist of income and expenditure accounts and balance sheets. These are given for 'general account' (i.e. total), and also in departmental form for postal, telegraph, telephone and international telegraph and telephone services.

The general balance sheet (which has a total of £830 million) shows the 'capital' to consist of £779 million, being the amount raised by Government loans and exchequer advances etc. Depreciation is provided on fixed assets, but expenditure on items such as letter-boxes, motor vehicles and cycles is charged against the income of the year concerned. The depreciation of plant is dealt with on a straight-line method on the basis of its historic cost. The depreciation of freehold and leasehold buildings is made by means of annuities.

The manner in which accommodation is dealt with is quite interesting. An account is drawn up, debiting such items as the interest on capital and provision for depreciation, together with charges for light, heat, power, rent, rates, and maintenance. As credits to this account are placed the rental value of accommodation provided for other Government departments together with receipts from sub-lettings; the balance is chargeable in certain proportions against the postal, telegraph and telephone services.

During the year ended March 31st, 1956, there was a net surplus after charging interest on capital of £2.3 million. This comprised a net surplus on telephone account of £4.9 million, and deficits of £1.1 million on postal and £1.5 million on telegraph business.

Since 1912-13, the net result from the trading operations of the G.P.O. has varied from a surplus of £40 million (1944-45) to a deficit of £7 million (1920-21). During the last forty-four years, the telegraph service has always operated at a loss, but surpluses have usually arisen on the postal and telephone business. In recent years, however, the postal surplus has been diminishing, as has the surplus on the telephone service. The year 1955-56 was the first year for many decades in which the postal business failed to produce a surplus.

COMPANY LAW

Private Companies

A private company is defined in Section 28, Companies Act, 1948, as being one which, by its articles:

- (a) restricts the rights to transfer its shares;
- (b) limits the number of its members to fifty (excluding present and past employees of the company);
- (c) prohibits any invitation to the public to subscribe for any shares or debentures of the company.

For the purposes of this section, when two or more persons hold shares jointly, the shareholding is treated as being that of a single member.

Among the advantages which a private company enjoys are the following:

- (1) The company may commence trading immediately upon obtaining the certificate of incorporation.
- (2) It may have a sole director.
- (3) It may consist of not more than two members.
- (4) Its directors need not be subject to any age limit.
- (5) No minimum subscription need be specified on the first allotment of shares.

¹ House of Commons Paper 26 (1956-57 Session). H.M.S.O. Price 3s 6d net.

Notes and Notices

The Accountant

INDEX TO VOL. CXXXVI: JANUARY-JUNE 1957

The general index to this volume - January-June 1957, Vol. CXXXVI - is published with the present issue. The parts of the volume, with the index, can now be sent for binding.

PERSONAL

MESSRS W. LACON THRELFORD & Co, Chartered Accountants, of Liverpool House, 15-17 Eldon Street, London, EC2, announce that Mr J. D. JENNINGS, F.C.A., has retired from the partnership as from June 30th, 1957. The practice will be continued under the same style and from the same address.

MESSRS STOY, HAYWARD & Co, Chartered Accountants, of 97-99 Park Street, London, W1, announce that Mr ALFRED AARON DAVIES, A.C.A., has been admitted to partnership as from July 1st, 1957. The name of the firm will remain unchanged.

MESSRS HAMILTON, PRINGLE, FARRANT & Co, Chartered Accountants (South Africa), of Southern Life Building, 88 Main Street, Johannesburg, announce that as from June 30th, 1957, Mr ERIC GIBSON PRINGLE, C.A.(S.A.), has ceased public practice and has retired from the firm in order to devote his time to his company directorships. The name of the firm will remain unchanged.

MESSRS HIGHFIELD, PRICHARD & MUMBY, Chartered Accountants, announce that as from July 1st, 1957, they have removed their offices from 6 Dale Street, Liverpool, 2, to the Corn Exchange, Fenwick Street, Liverpool, 2. Telephone: Central 6394-5.

MESSRS BURKE, COVINGTON & NASH, Chartered Accountants, announce that they have now moved to new offices at Bank Chambers, 329 High Holborn, London, WC1, Telephone: Holborn 5115.

MESSRS NATHANIEL DUXBURY, SON & Co, of Alexandra House, 49 Preston New Road, Blackburn, announce that as from July 1st, 1957, they have admitted to partnership Mr COLIN THOMAS SMITH, A.S.A.A., who served his articles with the firm. The name of the firm will remain unchanged.

MESSRS JARVIS BARBER & SONS, Incorporated Accountants, of 17 North Church Street, Sheffield, 1, announce that Mr PHILIP JOHN LAKE, A.C.A., who has been associated with the firm for some years, has been admitted to partnership as from July 1st, 1957. They also announce that as from that date, Mr J. J. FARMER, F.S.A.A., after an association of thirty-seven years, will relinquish his active participation in the practice while remaining available for consultation.

PROFESSIONAL NOTES

Mr N. G. Harrison, A.C.A., has been appointed secretary of Kodak Ltd.

The directors of A. R. Stenhouse & Partners (London) Ltd, deeply regret to announce the sudden death on July 1st, of Mr R. A. Hodge, A.C.A., director and secretary of the company.

STAMP OFFICE: SATURDAY CLOSING

The Board of Inland Revenue has announced that the Stamp Office in Bush House, Strand, London, WC2, will be closed on Saturdays as from August 3rd, 1957.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

MEETING OF THE COUNCIL

A meeting of the Council of The Institute of Chartered Accountants in Ireland was held in Belfast on Thursday, June 27th, 1957.

Attendance

The President, Mr G. F. Klingner, was in the chair, and there were also present: Messrs John Bacon, A. S. Boyd, G. E. Cameron, M. M. Connor, A. E. Dawson, James Graham, N. V. Hogan, R. E. McClure, R. P. F. Olden and H. W. Robinson, with the *Secretary* and the *Joint Secretary and Treasurer* in attendance.

Apologies for absence were submitted from Messrs James Walker, *Vice-President*, H. E. A. Addy, G. A. P. Bryan, Patrick Butler, Frank Cleland, J. F. Dempsey and D. McC. Watson.

Vacancy on Council

Mr Arthur Stanley Boyd, F.C.A., of Belfast, was unanimously co-opted to fill the vacancy on the Council resulting from the resignation of Mr Harford Trevor Montgomery.

Mr Boyd thereupon attended the meeting and was welcomed by the President.

Death

The death on June 10th, 1957, of Mr George Gibson, F.C.A., of Belfast, was reported and noted with regret.

Application under Bye-law 79

An application from an articled clerk for permission to spend a period not exceeding six months in an industrial organization during service under articles was acceded to.

Examinations, May 1957

The reports of the examiners on the examinations held in May 1957 were submitted, showing that in the Final examination 51 per cent of the candidates had been successful compared with 29 per cent at the previous examination; and that in the Intermediate examination 28 per cent had passed compared with 42 per cent in November 1956. In the preliminary examination three candidates out of sixteen were successful.

EXAMINATIONS RESULTS

The results of the examinations held in May 1957 are as follows

FINAL EXAMINATION

First Place and the 'Arthur H. Muir' Memorial Prize: Corvin, D. A., B.Sc.(ECON.) (Belfast).

Second Place: Higgins, T. P., B.A. (Dublin).

Third Place: Cruess-Callaghan, F. S. J. (Blackrock, Co. Dublin).

Full list of names of successful candidates (in alphabetical order)

Arnold, R. W. E. (Belfast); Brosnan, P. (Dublin); Campbell, L. (Dublin); Carson, J. G. (Ballymena, Co. Antrim); *Corvin, D. A. (Belfast); *Cruess-Callaghan, F. S. J. (Blackrock, Co. Dublin); Feddis, N. (Blackrock, Co. Dublin); Freeman, T. H. C. (Dublin); Geary, B. P. (Limerick); Geoghegan, N. W. (Dublin); Graham, D. E.

(Newtownards, Co. Down); Hanlon, J. P. (Dublin); Healy, J. E. (Dublin); *Higgins, T. P. (Dublin); Horner, J. M. (Bangor, Co. Down); Hughes, J. O. T. (Craigavad, Co. Down); Hulatt, J. D. (Belfast); Johnston, J. C. (Raheny, Co. Dublin); Kelly, I. W. (Dublin); Kenny, J. E. (Dublin); MacCarthy, C. M. (Castlebar, Co. Mayo); McCoy, R. (Belfast); McMahon, E. A. (Belfast); McVeigh, M. J. (Belfast); Matthews, R. G. (Glanmire, Co. Cork); More O'Ferral, J. L. (Dublin); Nichol, B. H. (Dublin); Rigney, J. P. J. (Templeogue, Co. Dublin); Sheridan, H. (Kilnaleck, Co. Cavan); Spence, D. R. (Belfast); Taylor, A. (Belfast); Templeton, B. O. (Belfast); Weir, W. E. (Belfast); Willis, S. T. (Bangor, Co. Down); Wilson, W. B. (Crumlin, Co. Antrim).

35 candidates passed.

33 candidates failed, of whom 5 were deferred for re-examination in one subject under bye-law 106.

* See also place list above.

INTERMEDIATE EXAMINATION

First Place and the 'John Mackie' Memorial Prize: Lawlor, Ruth Alexandra (Belfast).

Second Place: Whelan, B. J., B.COMM. (Dublin).

Third Place: Scott, W. H. (Milford, Co. Armagh).

Full list of names of successful candidates (in alphabetical order)

Carney, J. A. (Dublin); Crofton, D. F. R. (Dundrum, Co. Dublin); Dolan, A. J. (Strabane, Co. Tyrone); Donnelly, T. F. E. (Belfast); Donovan, C. W. (Dublin); Horner, P. J. R. (Bangor, Co. Down); Houston, J. C. (Dublin); Hussey, D. R. (Dublin); Kennedy, N. (Belfast); Kerr, J. W. (Ballymena, Co. Antrim); King, R. J. (Belfast); Kirby, T. P. (Blackrock, Co. Dublin); *Lawlor, R. A. (Belfast); Lynch, M. A. P. (Boosterstown, Co. Dublin); Meagher, W. E. (Blackrock, Co. Dublin); O'Donnell, L. (Sligo); O'Dowd, R. P. (Dublin); Passmore, D. W. J. (Dublin); Quirke, F. J. (Dalkey, Co. Dublin); Reynolds, G. J. G. (Dublin); *Scott, W. H. (Milford, Co. Armagh); Stein, M. (Dublin); Thompson, B. A. (Bangor, Co. Down); Webb, W. T. (Dublin); *Whelan, B. J. (Dublin).

25 candidates passed. 63 candidates failed.

* See also place list above.

PRELIMINARY EXAMINATION

Full list of names of successful candidates (in alphabetical order)

Caldwell, J. A. (Ballymena, Co. Antrim); Hawes, E. P. (Dublin); McCracken, G. C. J. (Dublin).

3 candidates passed. 13 candidates failed.

SUMMARY OF RESULTS

	Final	Inter- mediate	Prelimin- ary	Total
Candidates successful	35	25	3	63
Candidates failed ..	33	63	13	109
Candidates sat ..	68	88	16	172

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

TAXATION CONFERENCE

The London and District Society of Chartered Accountants has arranged to hold a residential conference on taxation at Eastbourne from November 7th-9th and a circular letter has been sent to all members inviting applications to attend. Last year the district society held a successful November conference at Eastbourne with management accounting as its theme.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

TAXATION AND RESEARCH COMMITTEE

The ninety-first meeting of the Taxation and Research Committee was held at the Institute on Thursday, June 20th, 1957, at 2 p.m.

Present: Mr G. P. Morgan-Jones (in the chair); Messrs R. D. R. Bateman, M.B.E., T. Fleming Birch, W. R. Carter, J. B. L. Clark, C.B.E., D. A. Clarke, R. A. Chermiside, S. Dixon, S. M. Duncan, A. R. English, F. J. Eves, E. S. Foden, G. G. G. Gault, S. C. Hand, N. B. Hart, O.B.E., T.D., W. S. Hayes, G. N. Hunter, P. D. Irons, H. Kirton, S. Kitchen, G. W. Knight, J. Latham, C.B.E., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., L. Pells, A. H. Proud, D. E. T. Tanfield, J. W. Walkden, F. J. Weeks, E. K. Wright and G. H. Yarnell, and Mr F. C. A. Ledsam, a member of a special sub-committee, with the Secretary.

The late Mr F. Carruthers, A.C.A.

The Committee heard with much regret that Mr F. Carruthers, A.C.A., died on May 7th, 1957.

Mr Carruthers had been a member of the Committee from October 1st, 1951, until the date of his death. He had served on the General Advisory Sub-Committee and a number of special sub-committees.

The Committee stood in silence as a token of respect.

Mr J. B. L. Clark, C.B.E., A.C.A.

The Committee congratulated Mr J. B. L. Clark on being appointed a Commander of the Order of the British Empire.

Standing Sub-Committees

Reports from the following Standing Sub-Committees were received:

General Advisory Sub-Committee.
Management Accounting Sub-Committee.
Taxation Sub-Committee.
Planning Sub-Committee.

Ad hoc Sub-Committees

Reports were received from three special sub-committees.

Future meetings

The next meeting of the Committee was arranged for Thursday, September 19th, 1957, and the normal dates for other meetings in 1957 are:

Thursday, October 17th, 1957.
" December 19th, 1957.

ASSOCIATION OF UNIVERSITY ACCOUNTING STUDENTS

FIRST ANNUAL CONFERENCE

The first annual conference of the Association of University Accounting Students was held at the London School of Economics, Houghton Street, London, WC2, on Friday and Saturday, June 21st and 22nd, with the President of the Association, Professor W. T. Baxter, B.COM., C.A., presiding.

At the opening session on Friday evening, under the chairmanship of Mr J. Hanson, of Manchester, an address was given on 'The graduate accountant in industry', by Dr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., A.C.I.S., M.I.I.A., controller of accounts, The Brush Group Ltd. On Saturday, business sessions were held, followed by an address by the President.

The honorary secretary of the Association is Mr A. M. C. Staniforth, c/o University Union, Burlington Street, Manchester, 15.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The summer meeting of the Chartered Accountants' Golfing Society was held at Worplesdon Golf Club on June 21st. Seventy members took out cards and the leading scores were as follows:

MEDAL ROUND:

J. T. Isherwood	86-17=69
Wins 1st prize and Lord Mayor's Cup.	
N. W. Collett	82-11=71
Wins 2nd prize and scratch prize.	
A. W. Coleman	86-14=72
T. E. Breakell	85-12=73
H. A. Astbury	86-12=74
A. B. Green	86-12=74
J. E. Talbot	93-18=75
I. S. Johnson	86-10=76
S. Pleydell-Bouverie	94-18=76
G. L. Wiener	91-15=76

FOURSOMES - Stapleford:

T. H. Noot and D. G. Richards ..	36 points
Win 1st prize	
A. W. Coleman and D. L. Thomas ..	35 "
Win 2nd prize	
D. W. Gibson and S. W. Penwill ..	34 "
H. E. Harden and P. Wand ..	34 "
J. R. Darby and G. L. Wiener ..	33 "
P. G. Barber and J. H. Shaw ..	32 "
L. V. Mills and D. Green ..	31 "

HOUSING ESTATES OF LOCAL AUTHORITIES

Dr A. H. Marshall, C.B.E., F.S.A.A., F.I.M.T.A., city treasurer of Coventry, has been appointed a member of the Housing Management Sub-Committee of the Central Housing Advisory Committee set up by the Minister of Housing and Local Government to review the present arrangements for the management of the

housing estates of local authorities and in particular the functions of housing managers and to make recommendations.

Organizations and individuals wishing to submit evidence to the sub-committee are invited to write to the joint secretaries, Miss M. Empson and Mr K. Lightfoot, at the Ministry of Housing and Local Government, Whitehall, SW1.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 8TH, 1882

*Leading article entitled***HALF A YEAR'S FAILURES**

We print in another column Mr. Richard Seyd's half-yearly list of failures, from which we gather that for the period just ended the total number of failures does not amount to half the total registered in 1881, and indeed compares favourably with any year since 1877. We think, however, there is very little satisfaction to be obtained from these figures in view of the present dulness of trade, and the fact that the weekly number of failures recorded in our journal has, for the last two or three weeks, exceeded the number during the corresponding weeks of last year; and should such a state of things continue, the advantage already gained in point of numbers will speedily be nullified, and the present year will sink to the level—if not below the level—of its predecessors.

The total number of failures in the wholesale trades of London during the whole of 1881 amounted to 313, while for the six months just ended the total amounts to 195. Other districts show a great improvement, especially Birmingham and the Midland Iron District, Liverpool, and Manchester.

Chronologically speaking, the month of March shows the largest total, while April has the least.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Results of Examinations held in May 1957

FINAL EXAMINATION

(Second Division)

As a result of the examination held on May 13th, 14th, 15th, 16th and 17th, 1957, the undermentioned 116 candidates passed the Second Division of the Institute's Final Examination. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned, an asterisk indicating a candidate who qualified for the Institute's Final examination certificate.

- *Alexander, J. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
- *Anderson, A. R. (G. K. Johnston & Smillie), Edinburgh.
- *Armstrong, H. F. (Lindsay, Jamieson & Haldane), Edinburgh.
- *Barr, I. S. (Mackay, Irons & Co), Dundee.
- *Bovens, I. A. (Hourston, Macfarlane & Co), Glasgow.
- *Beveridge, G. (Peacock & Henry), Glasgow.
- *Bisset, E. B. (Gillespie & Anderson), Glasgow.
- *Boadet, D. (Dunn, Wylie & Co), London.
- *Brown, G. R. L. (Lindsay, Jamieson & Haldane), Edinburgh.
- *Brown, I. S. (Gibson, Anderson & Co), Glasgow.
- *Brown, J. M. (McClelland, Ker & Co), Glasgow.
- Bryson, H. R. N. (Peat, Marwick, Mitchell & Co), Glasgow.
- *Cairns, J. S. (Thomson McLintock & Co), Glasgow.
- *Campbell, K. P. (James C. Cessford & Sons), Edinburgh.
- *Campbell, P. (W. A. Findlay & Co), Dundee.
- Carrick, W. L. (Dunlop & Murray), Glasgow.
- *Clydesdale, T. (William Bishop & Co), Edinburgh.
- *Clyne, G. S. (Smallfield, Rawlins & Co), London.
- *Cooper, W. M. (William Bishop & Co), Edinburgh.
- *Craig, K. J. (Mann, Judd, Gordon & Co), Glasgow.
- *Crofts, G. L. F. (Henderson & Loggie), Dundee.
- *Cunningham, J. D. G. (R. C. Thomson & Murdoch), Dundee.
- *Duncan, D. M. (Mackay, Irons & Co), Dundee.
- *Dunn, A. N. (Chrystal, McIntyre & Co), Glasgow.
- *Eadie, K. W. (Mann, Judd, Gordon & Co), Glasgow.
- Ellison, P. (Peat, Marwick, Mitchell & Co), London.
- *Farquharson, (Miss) K. A. (Martin Currie & Co), Edinburgh.
- *Ferguson, (Miss) E. H. (John Thorburn, Jun. & Co), Glasgow.
- Foley, N. J. (Dunn, Wylie & Co), London.
- *Fraser, A. J. (David Strathie & Co), Glasgow.
- Fraser, W. B. (Neil, Fullarton & Co), Glasgow.

- *Gallacher, H. S. (John M. Taylor & Co), Glasgow.
- *Gill, W. P. (Bower & Smith), Aberdeen.
- *Glentworth, The Viscount (Peat, Marwick, Mitchell & Co), London.
- *Gordon, C. P. (Peacock & Henry), Glasgow.
- *Gordon, S. (F. D. Greenhill & Co), Glasgow.
- *Gould, J. A. F. (Henderson & Loggie), Cupar.
- *Gray, D. (Thomson McLintock & Co), Glasgow.
- *Guest, A. G. (Graham, Smart & Annan), Edinburgh.
- *Harden, R. J. J. (Jas. Williamson & Co), Harrow.
- *Harman, S. B. (Morton Clark & Co), Orpington.
- *Harper, A. H. (Chrystal, McIntyre & Co), Glasgow.
- *Harris, R. P. S. (McLellan, Harris & Co), Glasgow.
- *Hendy, W. (Turner, McLachlan & Millar), Edinburgh.
- *Hervey, G. I. (Brown, Fleming & Murray), Glasgow.
- *Hogg, J. J. (W. J. M. Kean & Co), Edinburgh.
- *Houstoun, W. F. (Moore, Carson & Watson), Glasgow.
- *Jappy, W. (Jas. A. Jeffrey & Co), Aberdeen.
- *Kinloch, J. (Girdwood, Allison & Logan), Ayr.
- *Laird, J. S. (Mackay, Irons & Co), Dundee.
- *Law, W. W. (J. Kennedy & Co), Glasgow.
- *Lawrence, P. (Mitchell & Smith), Glasgow.
- *McAra, J. G. (McClelland, Ker & Co), London.
- *McCallum, A. (Alexander Sloan & Co), Glasgow.
- *MacCallum, A. G. (Reid & Mair), Glasgow.
- *McCallum, R. G. B. (McClelland, Ker & Co), Glasgow.
- *Macdonald, J. D. (Howden & Molleson), Edinburgh.
- *McElney, D. H. (Graham, Smart & Annan), Edinburgh.
- *McGreevy, T. E. (Kidston, Goff & Harvey), Glasgow.
- *McGregor, F. D. (Richard Brown & Co), Edinburgh.
- *McGrory, M. (Miller, McIntyre & Gellatly), Dundee.
- *MacLaren, A. L. (Hourston, Macfarlane & Co), Glasgow.
- *MacLean, W. S. (Robertson & Brown), Glasgow.
- *McLellan, R. S. (Macharg & Son), Glasgow.
- *McLennan, G. L. (W. M. Berrie), Edinburgh.
- *McLeod, E. (Jas. Henry Reid & Son), Aberdeen.
- *McLuakie, W. D. (McLachlan & Brown), Glasgow.
- *Mainds, S. A. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
- *Mitchell, T. S. (Paterson & Steel), Glasgow.
- *Morgan, R. F. (McClelland, Ker & Co), London.
- *Morrison, H. D. S. (Peat, Marwick, Mitchell & Co), Glasgow.
- *Muir, J. D. (David Strathie & Co), Glasgow.
- *Muir, W. H. W. (Chiene & Tait), Edinburgh.
- *Mycroft, F. H. (Maxtone Graham & Sime), Edinburgh.
- *Oliver, J. G. (Graham, Smart & Annan), Edinburgh.
- *O'Neill, A. C. (Robertson & Taylor), Dundee.
- *Oswald, J. W. (Wallace & Somerville), Edinburgh.
- *Palmer, S. M. (E. C. Finlayson), Aberdeen.
- *Paterson, A. J. S. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
- *Paterson, J. M. (Miller, McIntyre & Gellatly), Dundee.
- *Paton, (Miss) S. A. (Turner & Houston), Glasgow.
- *Penman, P. (Finnie, Ross, Welch & Co), Glasgow.
- *Pittendrigh, J. G. (Bower & Smith), Aberdeen.
- *Pratt, R. J. (Peat, Marwick, Mitchell & Co), London.
- *Rae, C. W. (Bower & Smith), Aberdeen.
- *Richardson, M. C. (Moody Stuart & Robertson), Dundee.
- *Roberts, R. K. (Hamilton Eddy & Rowand), London.
- *Robertson, D. M. (Howden & Molleson), Edinburgh.
- *Rutherford, L. C. (McClelland, Ker & Co), Glasgow.
- *Sheret, W. B. (Peat, Marwick, Mitchell & Co), Newcastle upon Tyne.
- *Simpson, A. (Ritchie & Holmes), Greenock.
- *Simpson, I. S. (Crawford & Paxton), Dumbarton.
- *Sinclair, D. McL. (Richardson & Lawson), Glasgow.
- *Smith, F. B. (Aikman & Glen), Glasgow.
- *Sneddon, T. M. (Thomson McLintock & Co), Glasgow.
- *Southcott, B. L. (Thomson McLintock & Co), London.
- *Spalding, T. I. (Moody Stuart & Robertson), Dundee.
- *Spittal, F. M. (Romanes & Munro), Edinburgh.
- *Stephen, R. McG. (Gillespie & Anderson), Glasgow.
- *Stewart, P. L. (A. & J. Robertson), Edinburgh.
- *Stuart, J. W. S. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
- Taylor, J. D. D. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
- Tegner, I. N. (Jenks, Percival, Pidgeon & Co), London.
- *Thom, A. K. (Wilson, Stirling & Co), Glasgow.
- *Thomson, H. E. (Thomson McLintock & Co), Glasgow.
- *Tosh, M. C. (Moody Stuart & Robertson), Dundee.
- *Walkinshaw, J. R. W. (Kirk & Johnston), Glasgow.
- *Wallace, J. E. C. (Wilson, Stirling & Co), Glasgow.
- *Watson, F. W. (McClelland, Ker & Co), London.
- *Watt, R. McL. (John E. Watson & Co), Glasgow.
- Weldon, M. U. (Evans, Fripp, Deed & Co), London.
- *Williamson, J. G. (F. A. Ritson & Co), Elgin.
- *Wilson, J. B. (A. & J. Robertson), Edinburgh.
- *Wyllie, I. L. (J. M. Wyllie & Co), Hamilton.
- *Young, J. I. (McLay, McAlister & McGibbon), Glasgow.
- *Yung, S. Y. T. (Moore, Carson & Watson), Glasgow.

The undernoted eight Service candidates were awarded passes in some papers but did not complete the examination.

- Craig, P. W. T. (Wilson, Stirling & Co), Glasgow.
- Downie, J. (A. & J. Robertson), Edinburgh.
- Emerson, J. T. (A. T. Niven & Co), Edinburgh.
- Macnab, E. M. (Gourlay & Deas), Glasgow.
- Minnis, E. P. (Robertson & Brown), Glasgow.
- Morrison, N. A. (Hourston, Macfarlane & Co), Glasgow.
- Reid, W. H. (Morris & Kelly), Perth.
- Usher, J. H. (Alexander Sloan & Co), Glasgow.

INTERMEDIATE EXAMINATION

(Second Division)

As a result of the examination held on May 16th and 17th, 1957, the undermentioned 134 candidates passed the Second Division of the Institute's Intermediate examination; their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

- Allan, D. L. R. (J. & R. Morison & Co), Perth.
- Anderson, J. (William Duncan & Co), Glasgow.
- Anderson, L. W. (Mackie & Clark), Glasgow.
- Bach, H. H. (Mackie & Clark), Glasgow.
- Baird, J. (Russ, Ferguson & MacLennan), Glasgow.
- Ballard, A. J. (Peat, Marwick, Mitchell & Co), London.

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Boyd, R. A. (Richard Brown & Co), Edinburgh.
Bremner, C. C. (McKerrell Brown & Gray), Edinburgh.
Brownlow, A. C. (Richard Brown & Co), Edinburgh.

Cairnie, T. R. (Mackay, Irons & Co), Dundee.
Calder, K. M. (Robertson & Carphin), Edinburgh.
Calderwood, R. B. (Euan Macdiarmid & Co), Edinburgh.
Campbell, I. (Thomson McLintock & Co), Glasgow.
Carter, W. B. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Clark, G. S. (R. C. Thomson & Murdoch), Dundee.
Cole-Hamilton, A. R. (R. A. Clement & Co), Glasgow.
Cousland, R. C. (Chiene & Tait), Edinburgh.
Cowan, J. (William D. Anderson), Edinburgh.
Cowan, J. D. (Welsh, Walker & Macpherson), Greenock.
Craig, H. C. (Martin Currie & Co), Edinburgh.
Cruickshank, (Miss) J. M. (W. D. Johnston & Carmichael), Elgin.
Cullen, P. B. (Mitchell, Kennaway & Co), Aberdeen.
Cunningham, J. B. (Moody Stuart & Robertson), Dundee.
Cuthbertson, J. L. (Peat, Marwick, Mitchell & Co), Glasgow.

Doig, D. (Romanes & Munro), Edinburgh.
Donnan, J. Y. (Hardie, MacFarlane, Carstairs & Mann), Glasgow.
Donner, P. J. (Finnie, Ross, Welch & Co), London.
Duncan, J. (McIntyre & Rae), Dundee.

Edington, A. (J. Douglas Henderson & Co), Edinburgh.
Emslie, E. D. (Geo. T. Clunie & Scott), Edinburgh.
Evans, J. E. (Deloitte, Plender, Griffiths & Co), London.

Farquhar, J. I. (Helen M. Lowe), Edinburgh.
Fyfe, A. P. McL. (J. Douglas Henderson & Co), Edinburgh.

Gairns, D. W. (Peat, Marwick, Mitchell & Co), Leeds.
Gilchrist, I. J. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
Godfrey, R. M. (A. G. Murray & Co), Edinburgh.
Goodall, E. J. M. (R. C. Kelman & Shirreffs), Aberdeen.
Gordon, A. A. R. (A. & J. Robertson), Edinburgh.
Gordon, R. E. (Thomson McLintock & Co), London.
Gormly, A. G. (Peat, Marwick, Mitchell & Co), Glasgow.
Gray, E. G. (C. J. Weir & Co), London.
Gullan, L. C. (W. S. Brown, MacDonald & Fleming), Edinburgh.

Harvey, W. S. (W. P. & J. A. Scott), Edinburgh.
Hay, J. E. (Henderson & Loggie), Dundee.
Henderson, G. (James & J. H. Paterson), Greenock.
Henderson, M. (A. C. Philip & Co), Dunfermline.
Hill, J. D. M. (John M. Geoghegan & Co), Edinburgh.
Howie, A. O. (J. W. Stewart & Co), Glasgow.

Irvine, T. R. (Ritchie & Holmes), Greenock.

Jackson, (Miss) S. H. (Moore, Carson & Watson), London.
Jackson, W. G. M. (Taylor & Gilmour), Glasgow.
Johnston, B. W. M. (Mackay, Irons & Co), Dundee.

Kelly, E. (Henderson & Loggie), Dundee.
Kidd, F. F. (Wylie & Hutton), Edinburgh.
Kilgour, D. R. (Robertson & Carphin), Edinburgh.

Leask, L. S. (Thomson McLintock & Co), Glasgow.
Lenehan, T. W. (Wylie & Bisset), Glasgow.
Lesells, N. (Graham, Smart & Annan), Edinburgh.
Loudon, J. A. (A. G. Murray & Co), Edinburgh.
Love, A. R. (McClelland, Ker & Co), Glasgow.

McAllister, I. M. (John E. Watson & Co), Glasgow.
McAlpine, D. (A. G. McBain & Co), Glasgow.
McAulay, R. J. (Moore, Carson & Watson), Glasgow.

McAvoy, R. (Henry Brown & Co), Kilmarnock.
McBain, A. G. (G. & J. McBain), Aberdeen.
McCrae, J. (Todd & Gordon), Glasgow.
McCreath, H. M. (Wilson, Stirling & Co), Glasgow.
McDiarmid, A. K. (Geo. T. Clunie & Scott), Edinburgh.
MacDonald, N. H. (Macmeeken & Lawson), Edinburgh.
McGill, M. (Farries, Kirk & Johnston), Dumfries.
McIntosh, W. D. (A. & J. Robertson), Edinburgh.
McKenzie, D. J. T. (Mackay, Irons & Co), Dundee.
McKinlay, J. (Hourston, Macfarlane & Co), Glasgow.
MacLean, D. G. (Thomson McLintock & Co), Glasgow.
MacLean, I. A. (French & Cowan), Glasgow.
Maclean, N. (Hardie, Caldwell Ker & Hardie), Glasgow.
MacLeod, R. H. (Russ, Ferguson & MacLennan), Stornoway.
Macmillan, I. (John E. Watson & Co), Glasgow.
MacNaughton, D. (Norman J. Bird & Co), Dundee.
MacSween, M. M. (John E. Watson & Co), Glasgow.
Malloch, J. (Arthur Walker), Edinburgh.
Manners, (Miss) J. I. M. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
Marshall, W. Y. (Romanes & Aitchison), Edinburgh.
Martin, D. (Parker, Lawson & Stevenson), Glasgow.
Matheson, A. W. (Mackie & Clark), Glasgow.
Mawer, C. G. (Nairn, Bowes & Craig), Glasgow.
Meechie, J. S. (McIntyre & Rae), Dundee.
Mercer, J. (J. Wylie Guild & Ballantine), Glasgow.
Muir, A. R. (French & Cowan), Glasgow.
Munro, W. R. (R. S. Clark), Leven.
Murray, L. (Chiene & Tait), Edinburgh.
Murray, (Miss) M. I. (G. K. Johnston & Smillie), Edinburgh.
Myint, M. T. (Brown, Fleming & Murray), Glasgow.

Nicol, A. D. (Anderson & Menzies), Kirkcaldy.
Noonan, R. T. A. (Smedley, Rule & Co), London.

O'Donnell, G. B. (Crawford & Paxton), Dumbarton.
Ogilvie, G. L. (Henderson & Loggie), Dundee.
Overton, K. W. (Cotman, Hooper & Co), London.

Park, L. A. B. (Moore, Carson & Watson), Glasgow.
Paterson, R. A. (Mitchell & Smith), Glasgow.
Peebles, H. B. (McCosh, Pritchard & Co), Ayr.
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MANAGEMENT EXPENSES CLAIMS

ALTHOUGH the annual appearance of Finance Acts of ever-increasing complexity is one of the main causes of bewilderment with income tax law, it is not the only one. Perhaps even more remarkable is the way in which the meaning of time-honoured and apparently simple phrases in the older Acts can be suddenly changed, either because some independent-minded taxpayer challenges it, or because the Inland Revenue suddenly decide to change their long-standing practice.

Since 1915, life assurance companies, investment companies, and savings banks having taxed investment income, have been allowed to claim repayment of tax on 'any sums disbursed as expenses of management (including commissions)'. Naturally, it is a condition of this relief that the company shall not have been assessed under Case I of Schedule D, otherwise there would be a double allowance. From 1915 to 1948, it was the practice of the Inland Revenue to allow the inclusion in a management expenses claim of sums expended on stamp duties and stockbrokers' fees on the purchase and sale of investments. In the latter year, the Inland Revenue changed their practice and resisted claims which included these items. This resulted in the Court of Appeal decision in *Capital & National Trust Ltd v. Golder* (28 A.T.C. 236; 31 T.C. 265) that, in the case of an investment company, such expenses were not expenses of management. It had been found as a fact in that case that the investments in question were capital assets of the company.

Subsequently, the change in practice was challenged by a number of life assurance companies. In *Sun Life Assurance Society v. Davidson* (35 A.T.C. 132) the company's management expenses claim for 1949-50 included £40,773 for brokerage and stamp duties on changes of investments, all of which the Inland Revenue had disallowed for the first time. When the claim came before the Special Commissioners they accepted evidence that life assurance was a trade in the course of which it was necessary to purchase investments and from time to time to sell or change them, these investments being part of the circulating capital and not part of the fixed capital assets.

The company had a special staff concerned with the investment of its moneys, some through the stock exchange and some privately, including the lending of money to policy holders on the security of their policies or other property. The Inland Revenue made no objection to the inclusion in the claim of all the salaries of this staff, nor to the inclusion of such items as stamp

duties on the policies issued, and law charges for investigating the title to property mortgaged to the company as security for advances made to policy holders. However, the Special Commissioners held that the brokerage commission and stamp duties on changes of investments were not expenses of management but expenses specifically referable to, and only incurred by reason of, the changes of investment.

On appeal to the High Court, HARMAN, J., delivered a refreshing judgment in the course of which he said he could see no difference between those items mentioned above which had been allowed, and the brokerage commissions. He pointed out that neither side had alleged that the words in brackets in the relevant section '(including commissions)' applied to these brokerage commissions. He did not feel the same confidence about the stamp duties, but would certainly have allowed the brokerage commissions were it not for existing authorities. However, he felt that notwithstanding the different facts in the *Capital & National Trust* case, the principle of that decision applied equally to the present case. Accordingly he felt bound to dismiss the appeal. The Court of Appeal unanimously affirmed his decision.

The *Capital & National Trust* decision was not binding on the House of Lords and the

company appealed to that tribunal, which has now dismissed the appeal (*The Times*, July 5th, 1957). VISCOUNT SIMONDS pointed out that counsel for the company had conceded that the purchase price of investments was not an expense of management. That being so, there was no essential distinction between the cost of the investments and the stamp duty and brokerage; it would be departing from common sense to treat them differently. LORD MORTON and LORD KEITH agreed with him. LORD SOMERVELL also agreed but with some reluctance. LORD REID (clearly undaunted by LORD SIMONDS's reference to common sense) gave the opinion that the brokerage commissions were clearly expenses of management, but that the stamp duties were not.

It seems that if counsel had not conceded that the cost of investments were outside the definition of expenses of management, the decision might possibly have gone the other way. However, it would be a little absurd to allow the cost of investments without bringing in realizations. One does not know whether the company made an aggregate profit or an aggregate loss on its investments turnover, but if the investment department was successful in its work, the inference is that a profit was made, in which case counsel's concession is perhaps explained.

THE FINANCE BILL – IX OVERSEAS TRADE CORPORATIONS

Transfer of Part of Trade to O.T.C.

ON the republication of the Bill last Tuesday, after amendments made at the Committee Stage, the clauses were re-numbered. The clause dealing with transfers of part of a trade which we began to discuss last week as clause 29, is now clause 31.

The transfer of part of a trade will rarely take place on April 6th. Accordingly it is necessary to provide for a further apportionment. For the assessment year of change two computations are to be made, one on the basis of including the transferred part (x) and the other on the basis of excluding it (y). The proportion of x up to the date of transfer is added to the proportion of y from the date of transfer, and the total represents the amount assessable on the transferor for the assessment year of transfer. A

similar computation and apportionment is made of capital allowances and balancing charges.

Example

A. carries on a mixed trade, including overseas activities. On August 6th, 1957, he transfers the overseas part of his trade to a wholly-owned O.T.C. The profits are as follows, including the profits for the overseas part shown in parenthesis:

Year ended June 30th, 1956, £12,000 (£3,000)
Year ended June 30th, 1957, £13,000 (£3,500)

1957-58 Assessment on A.:

6/4/57 to 5/8/57	$\frac{4}{12}$ of £12,000 (x)	..	£4,000
6/8/57 to 5/4/58	$\frac{8}{12}$ of £9,000 (y)	..	£6,000
			£10,000

1958-59 Assessment on A.:

£13,000 - £3,500	..	..	£9,500
------------------	----	----	--------

Clause 31 (4) (formerly clause 29 (4)) provides that the transfer of part of a trade to an O.T.C. shall not give rise to a balancing allowance or charge. It goes on to provide that (in the case of expenditure incurred before April 9th, 1957) the transfer of the asset brought into being by the expenditure shall not constitute an event within paragraph 1 (2) (a) of the Second Schedule to the Finance Act, 1952, so as to forfeit investment allowance. However, paragraph 1 (2) (a) in any case only applies where the buyer is a non-resident, whereas an O.T.C. is *ex hypothesi* resident.

Surtax Directions and the O.T.C.

Total exemption of profits which are ploughed back is obviously a powerful inducement to an O.T.C. not to declare any dividends at all. How is this to be reconciled with the machinery of surtax direction on closely controlled companies which do not distribute a reasonable amount of their profit? Clause 32 (1) provides the answer by saying two things: first, that the provisions for surtax direction remain unaffected; secondly, in deciding what is reasonable, the fact that undistributed profit is exempt is to be ignored.

Assuming a direction is made for any period, income tax under Case VI is to be charged at the rate in force for the assessment year in which the period ends. It will be charged on the exempt trading income for the period, less distributions already allocated to that income. This charge will, of course, put an end to the income tax chargeability of that income, even where subsequently distributed. For the purpose of computing the exempt trading income in this connection the Inland Revenue are authorized to make special rules and the computation made under those special rules will hold good in relation to the allocation of subsequent distributions. They can also prescribe rules for the case where a direction is made for a period which is not a period of accounts.

Profits Tax Exemption

Clause 28 (1) (formerly clause 26 (1)) exempts the trading income of O.T.C.s from the profits tax charged on the profits of their trades and businesses. This trading income is also to be ignored for all other profits tax purposes, with the exception in relation to abatement which will

be mentioned later. Investment income forming part of the O.T.C.'s profits will still remain chargeable to profits tax but in relation to this there are further modifications of the existing rules. The expressions 'trading income' and 'investment income' are the subject of special definition in clause 34 (1) which was examined in the sixth article in this series, being then clause 32 (1).

Profits Tax Computations

The modifications of the rules for computing profit for profits tax purposes in the case of an O.T.C. are contained in the Seventh Schedule and are arranged in what seem like a series of afterthoughts. The Schedule begins with an absolute prohibition against all deductions in arriving at chargeable profit, which profit will consist of investment income. In other words, all expenses will, in effect, be regarded as incurred in earning the trading income which is exempt. There is an exception in favour of interest, annuities and annual payments; these are to be set off against investment income however unconnected with it they may be. On the other hand, the deduction for these items is not to exceed the investment income, as defined in clause 32. All the above provisions are contained in paragraph (1) (1) of the Seventh Schedule.

Now so far it would seem that a loss would be highly unlikely. Nevertheless, paragraph 1 (2) introduces a further proviso to the prohibition on deductions; it preserves the right to deduct losses brought forward, under paragraph 2 (2) of the Fourth Schedule to the Finance Act, 1947. One might well assume from this that losses of pre-O.T.C. periods would be available for set-off against the restricted profits of O.T.C. periods. However, such an illogical move is not contemplated, for another afterthought (this time in paragraph 13) clearly states that losses incurred before the date on which a company first becomes an O.T.C. are not to be set off against profits after that date, whether or not the company loses its O.T.C. status.

On one subject the bewildered reader receives reasonably clear guidance, although the topic is not a weighty one. Paragraph 2 directs that in computing income which is also assessable under Schedule A, the quantum is to be the same as for income tax purposes. (To be continued.)

ELECTRONIC DATA PROCESSING

A NEW APPROACH TO A NEW TECHNIQUE

by KENNETH S. MOST, LL.B., A.C.A.

IN considering the applications of electronic data processing equipment it is necessary to regard the organization as an integral whole, of which the accounting department is only one of a number of parts. The division of accounting records into sales, purchases, cash, and so on, is basically a question of convenience and is not dictated by the divisions of any given organization. It provides the accountant with an accounting structure in the form of a pyramid. At the base are the journals for cash, materials, payroll and the like. This is the point at which documents circulating within a business cease to be a matter of organization and methods, and become raw materials for the books of account. Above the journals are the subsidiary ledgers for sales, purchases, plant, administration, etc., and at the apex is the general ledger, with its control accounts.

The task of book-keeping in any organization is, to receive documents relating to financial activities, to register them in the journals, analyse them in the subsidiary ledgers and bring them, in summary form, into the general ledger accounts.

History of Mechanization

Before electronic data processing equipment entered the picture, mechanization related in the main to existing procedures. The first machine to be used for book-keeping was probably the typewriter. Other ancillary machines were introduced, the comptometer, the calculator, the cash register and so on. A great step forward was taken when these machines were made operational, as where a typewriter was provided with a built-in adding machine having several registers and capable of limited simultaneous arithmetical work. By such means, the machine took over a convenient sector of manual and mental operations.

When such machines were applied to sections of the accounting department, the data had to be collected, transcribed and summarized before they could be processed, generally by traditional manual procedures. The introduction of punched-card equipment represented a wholly successful attempt to mechanize tabulation within the framework of existing accounting systems.

In spite of this, the writer is acquainted with two organizations where punched cards are used for statistical analysis and summarization without having any direct relation to the book-keeping. In

these organizations, the adaptation of existing punched-card routines to make the cards utilizable for book-keeping operations, although a simple and inexpensive matter, has never been undertaken.

The Problem of Record-keeping

The scope of record-keeping in any organization has been divided into: (a) originating data; (b) processing data; (c) utilizing data.

(a) *Originating data* has two aspects, viz: the preparation of original documents, and their screening. With regard to the latter, which covers internal control, authorizations, pre-audit and post-audit, it cannot be examined in vacuo, without referring to an actual situation. Suffice to say here that basic auditing principles apply. Preparation of original documents includes not only those arising out of transactions, such as invoices, cheques and receiving reports, but also those resulting from clerical procedures only, such as vouchers, budgets and payroll.

(b) *Processing data* covers the means whereby data originated within an organization are made available in significant form after calculation, analysis and accumulation; in book-keeping terms, the creation of journal and ledger entries.

(c) *Utilizing data* means the preparation of reports and statements, comparisons with standards and estimates, and references to particular results for specific purposes.

Obviously, (c) is the aim of (a) and (b), and all are means to an end, either the efficient conduct of a business or the accountability of its managers.

When regarding any book-keeping problem the accountant will have in mind the purposes for which data are to be utilized, and in examining new equipment he will ask himself, not only whether existing reports and statements will be made available more cheaply and promptly, but also whether any information can be given to management which existing resources cannot provide, and which will be of value in reducing costs or increasing sales.

The assumption to be avoided in planning the installation of data processing equipment, is that existing book-keeping systems are sacrosanct, and that it is only desired to speed them up and make them operate at a reduced cost. From time to time, references have appeared in the Press

to 'integrated' data processing systems, particularly those planned for a United States airline and a Canadian railroad. It will be noted that this type of organization is particularly suited for the integration of operations and records because it does not handle goods, except as incidental to its main activity. The 'nigger' in every accountant's 'woodpile' is, of course, stores accounting. However, the potentialities of electronic data processing lend themselves also to integrated systems for manufacturing and merchandizing concerns.

Accounting for Movements, not Transactions

Let us forget that book-keeping is concerned with transactions, and conceive of it as recording the movements taking place within a business while it is functioning. They can be summarized as: movement of goods, movement of cash (or credit), movement of employees (labour performance) and movement of machines (machine performance). These movements are inter-related: both purchases and sales involve movement of goods and cash (or credit). In a factory, movement of goods involves labour and machine performance. If these movements can be metered, so that they are recorded when they are made, we should arrive at a very important advance, namely, the merging of originating and processing data. We could eliminate tabulation as a separate function, with its extra cost and frequent opportunities for error, and it will be noted that this principle is already in widespread application in the use of tabulating cash registers.

The structure of a book-keeping system built up to record movements instead of transactions would differ from the ones generally encountered, for it would not deal separately with sales, purchases, payroll, costs and other aspects of financial activities. The data originated, irrespective of the source, would be led directly into the form in which they were to be utilized.

Utilization of Data

In considering the utilization of data, it is important to bear in mind that some reports are required daily, some weekly, some monthly and others 'on demand'. An electronic data processing system which enables data to be processed as they are originated, and thus allows a book-keeping installation to record the day's movements on the same day, is basically different from even the most advanced mechanized accounting which is geared to the production of monthly or four-weekly statements. In the latter, it is natural to allow the financial and cost statements to dictate the form

of the book-keeping system, since the monthly reports are its main objects and the daily or weekly requirements, such as payroll, statistics and cost variances, are dealt with independently. It would not be right, however, to build an electronic data processing system around the production of monthly statements. What was the main product, in effect, must become a by-product.

The aim of the accountant operating a data processing system must be, to send a searchlight into the darkest corners of his organization and to provide his colleagues with the information necessary to permit them to operate at their maximum efficiency. For example, it is most important for a chain department-store business to know its daily stock position in every shop for every item.

Prior to the invention of electronic data processing equipment this requirement could hardly be met in such a way that stocks could be kept at optimum size without tying up too much capital or incurring an uneconomic bill for clerical work. As far as prompt action was concerned, it could not be met at all. Now, when all sales are registered in a form which enables them to be processed automatically, without intervening manual transcription, it is quite feasible for daily individual stock movements in each store to be transmitted to the central office, for the central office to feed the data into the computer, the computer to compare actual quantities on hand with budgeted quantities, the printer to prepare stock requisitions for each store, and even for the requisitions to be transmitted to the regional warehouses for immediate action the following morning.

Current Accounts and Random Accessibility

It is one thing to keep information flowing through an organization in the order in which it is prepared, and another to keep current accounts to which reference must be made at irregular times, in respect of differing periods. Current accounts include all personal and stock accounts, the balances of which are the products of a number of debits and credits.

Large organizations develop inevitably towards centralization of administration and de-centralization of operations; the former being a matter of costs, and the latter, of efficiency. An electronic data processing system can only be economical in a highly centralized administration, yet the figures it produces are required at widely dispersed points.

A number of methods are being tried out for

solving these two related problems, being based on communication between central office and branch or departmental operations. Examples are closed-circuit television and transmittal of information by teleprinter. Both are expensive and open to criticism from technical and internal control standpoints.

It may be necessary to approach the question from another angle. Random accessibility, for example, should not be required from data processing equipment capable of handling figures at the rate of thousands per second, although a computer has been developed in the United States which can provide it within the central office without interrupting the computer's operations. We should look to supporting documents in conjunction with printed statements to give us this type of information. The idea of a scanner for magnetic tape, is like holding punched cards to the light to see if the holes are in the right spaces.

Assuming a purchasing department in a large organization, we must start to account for the movement of goods when the purchase order is made out. We shall require accounts for goods ordered but not yet received, for goods received but not yet invoiced, for goods invoiced but not yet paid for, and of course, those for the various categories of purchase. Now, if the computer reports and purchase orders are properly filed in the purchasing department we should be able to ascertain all needed information for individual suppliers without referring to the internal and external stores of the computer. The analogy is to the practice of cycle-billing, where at any given time there are a number of sales dockets, already recorded as sales and debited to the control account for debtors, but not yet debited to individual customers, and which must be listed if the balance of the control account is to be reconciled.

It will be observed that we could make an adding-machine listing of open files, or vouchers, in the purchasing department, in order to prove the balance of the account for goods invoiced but not yet paid for (accounts payable). We could also make an adding-machine listing of the daily output of purchase orders, receiving reports, invoice vouchers and payment authorizations, to prove the daily debits and credits to the accounts mentioned above.

The Position of the Auditor

The significance of these considerations to the internal and external auditors is something which must be squarely faced.

It is clear that conventional auditing techniques, already the subject of much earnest re-examination in connection with the audit of large businesses, will be of little use in the audit of an electronic data processing system. On the other hand, auditing principles of liability and responsibility will remain unchanged, as will also the scope of the auditor's work.

Co-operation Essential

Anything in the nature of auditing restrictive practice must be avoided if the gap between professional and business accountants is not to widen. It will have to be recognized that their requirements are not identical at all points, but also that close co-operation between them is essential. The keys to this problem are to be found in internal control and the internal audit.

The internal and external auditors will naturally be consulted at all stages of the installation of data processing equipment and particularly at the very beginning, when a general plan is being worked out. At that time, all points in the flow of documents which allow the introduction of arithmetical and authorizational checks will have to be identified and provisional arrangements made for their institution. At the end of the planning stage, the whole picture must be reviewed in order to see where checks are being duplicated unnecessarily, and whether any opportunities for fraud or error exist which have not been given consideration.

It is important that the system shall be able to work at high speed, and it may be advisable to assume the regularity of certain matters to an extent not compatible with ideal conditions of internal control. The duties of the internal auditor will then have to be considerably expanded, and arrangements made for him to perform parts of his programme within a very short space of time, e.g. test-checks of a day's records performed the following day.

The external auditor will have to base his opinion, to a great extent, on his examination of the system of internal control and on his evaluation of the work performed by the internal auditor.

The virtues of computing machines have been described as 'those of a supremely competent but quite unoriginal clerk'.

Accountants will not turn tail before the computer because it is a machine and not a human being. On the contrary, they have a responsibility to request the engineers to place a moratorium on new developments so that methods of organization and book-keeping can catch up with the potentialities of available equipment.

GAINING EXPERIENCE?

An Accountant's Interviews when Applying for New Posts

CONTRIBUTED

DON'T stay in any job too long. Move about and gain experience: that's the way to get on.' Such was the advice given to me on starting out in life as an accountant. Twenty-five years of relentless application has shown this advice to be highly questionable. It has, however, brought in its train a wide variety of jobs – mainly professional – and these have been preceded by an even greater number of interviews.

My mind goes back to my first interview. . . . I had little to say, for I was merely the merchandise itemized in an agreement for 'articles'. My prospective employer was a provincial accountant, an original member of the organized profession, capable, autocratic and respected.

It happened that the date fixed for the commencement of my articles coincided with his birthday. He commented on this and broke into a guffaw of laughter in which my father joined. I laughed too, but my heart sank. I had detected a sardonic note that warned me not to take advantage of momentary good humour!

At the conclusion of my articles I sought a post in London. This was in the nineteen-thirties, when opportunities were few and far between. Gaining an interview was an achievement, acceptance an event. It was a chastening experience.

In Westminster I was asked whether I was capable of extracting a list of creditors. My protests, that of course I could, merely brought forth the retort that the last qualified man couldn't do so. 'Anyway,' my questioner went on, 'you haven't heard the result of your examination yet. If you have failed you may be unsuitable and if you have passed you'll want more money'. I was left with a suspicion that we had been wasting time.

A Curious Question

A curious question was put to me in Holborn. 'Suppose you were preparing annual accounts and you discovered that a quarter's rent which had accrued at the commencement had not been provided for in the previous accounts, what action would you take?' While I was cudgelling my brains over this a secretary brought in some

cash which had evidently been drawn for wages. My examiner appeared to have considerable difficulty in reconciling the figures and engaged in a verbal tussle with his secretary. When she had gone I gave him my reply but it seemed to evoke very little interest. I shall never know the correct answer as my application was unsuccessful.

After applying for a post with a large manufacturing company, I was put to work on an American type of general knowledge examination. Time was limited, and the test had to be completed at high speed. In due course I learned that two applicants, of which I was one, had been selected for a final interview.

How much?

The interview was by a director at his club in Whitehall. Only one question has remained in my memory: 'How much money do you wish to earn ultimately? That is to say, at what figure would you decide that you are earning enough and have no desire to increase it?'

This floored me completely. I suggested that whatever figure I reached I might find that my tastes had changed and accordingly I should wish to go higher; but he made it clear that this was not the answer he wanted. It was quite plain to me that he was trying to give me a clue but somehow I could not detect it. Finally, in desperation, I quoted some figure but I sensed that my reply was not adequate. The other man won. And how much I have wished all these years to know what he replied!

In the provinces also I found a wide variety of method. At one firm I was even informed of a figure which represented the highest that any employee would be able to earn, after which he must remain content or seek employment elsewhere.

An Individual Approach

The employer with whom I stayed for the longest period, and for whom I did (I think) my best work, had a highly individual approach. He refused to recognize rules or regulations, legal obligations or mass negotiations. He relied on exhortations, appeals to the conscience and

delegation of authority on the basis of absolute trust. Uniformity was anathema to him.

The office was in a somewhat remote rural district. Attending for the interview, I was met by him at the station and he took me through the small town to the office along roads which were quite delightful. Later I discovered that there was a much shorter route which was by no means so attractive. He believed always in dressing a business transaction in a civilized coat. When I inquired about the references he might require, he refused to discuss the matter. It was sufficient for him that I was a member of a highly respectable body of accountants.

Service Agreements

A later experience was quite the reverse. Times being more liberal towards the seeker after fresh fields I suddenly found myself in possession of several offers. The firm whose offer I accepted wrote and asked me to give my present employers a month's notice and in the meanwhile they would draw up an agreement. Until then there had been no mention of one. Shortly before my notice expired I received the draft agreement. It proved to be such an astonishing collection of safeguards and provisos that I had to refuse to sign, and the job fell through. At one stage there was an attempt at negotiations but they were doomed from the beginning because there could be no confidence after such a bad start.

I had other experiences of these so-called service agreements in the provinces, but this is not the place for a detailed examination of their merits and de-merits. It is sufficient to observe that I never discovered a case where appropriate benefits were conferred on the employee as consideration for the protection demanded by the firm.

Longest Interview

It was in a small cathedral city that my longest interview took place: it began at ten o'clock and finished about three-thirty. The senior partner, Mr A., was engaged until eleven o'clock so I had a long conversation with Mr B., the next in seniority. During this conversation it transpired that several people had failed to satisfy them in controlling the section I would be required to take over.

When Mr A. joined us, complaint was made of the untidiness of a former member of the staff. It appeared that he had been granted an extra day's leave before his wedding and during that day it became necessary for Mr B. to look for papers

in this man's desk. It was in such a state that Mr B. 'jocularly' suggested that someone should telephone and call in the delinquent: he duly arrived to clear up the mess!

Our discussions eventually reached a point at which the others decided to call in two partners from outlying districts to examine me. When they arrived, I was entertained very cordially to a drink, followed by lunch. Unfortunately, the braised tongue was quite exceptionally tough, and Mr A. bullied the waiter unmercifully about it. After lunch there were further discussions, during which the junior partner described to me in glowing terms a bungalow he wished to sell.

Although I received a fair offer from them in due course, I decided that their personalities were much too powerful for me, and had to decline.

Box Numbers

Back in London once more, interviews continued to veer away from the conventional.

I had been putting my case as rosily as possible to the most charming and urbane staff partner I have ever met when suddenly he stood up and walked across to the window. Talking apparently to the sparrows outside he said: 'This is quite interesting really. Although you came by chance today, I have in fact had a letter from you already.' Completely bewildered, I could say nothing at first, and then it dawned upon me. 'Box number!' I exclaimed.

He laughed, and took a file out of his cupboard and sat down again.

'I hope the story is much the same,' I ventured.

'We'll see,' he said.

He found my letter and read it through carefully, keeping me in suspense until the end. I was not seriously perturbed. I already knew him to be a fair-minded man, aware that truth has not such a keen edge as some people are apt to suppose. In the event, I had no need to worry.

This last episode illuminates a situation which, I learned later, has developed in regard to box number advertisements. With the quick turnover in staff among city accountants many employers are receiving applications from their own staff. In such cases they have the pleasure of learning the high qualities and earning power of clerks whom they had previously underrated.

Surely the hazards of the chase are sufficient without having to clear this additional hurdle right at the beginning.

MANAGEMENT IMPLICATIONS OF AUTOMATION

by J. A. HUNT, M.B.E.

MANAGEMENT'S job is to help set Britain on its feet and since automation is an agent to this end, management must remain undeterred by those who wilfully or stupidly create a climate of opinion unfavourable to this, as to every other technical innovation.

We have now a special 'once and for all' opportunity. There is at present a surge of scientific and technical development creating a new and fluid situation in which this country can improve its position relative to its competitors in world trade and absolutely in terms of economic strength and political influence.

Given that our productive resources are, on the average, below American standards, that we have not advanced with them through successive stages of mechanization, we can now, if we will, skip some of these stages and re-equip at the highest point on the curve. If we accept the implications of automation to productive capacity, we can, at one bound, recover much of the ground lost by the relative stagnation of former years.

Definitions of Automation

Automation means different things to different people. To the American, John Diebold, automation is a philosophy - 'organizing work as a system'. Another wide definition of automation by the Vice-President of the Ford Motor Company is - 'the making of tools to produce more efficiently - it is progress'.

We are no doubt all familiar with the Detroit or Birmingham idea of automation associated with transfer machines for metal cutting. Essentially a group of machine heads mounted in series on a common bed, this type of integrated machine is capable of the automatic machining of components requiring a large number of operations, the components being transferred automatically from one machine head to another for the purpose.

The significance of this development is in the ability of the machine to handle components of so called 'discrete' shapes - individual and often awkward shapes - as, for example, an engine cylinder block. Most early essays in automatic production have not been of this kind, but where the material can be made to flow uniformly, as for example, with paper or oil. The implication of these composite or transfer machines can be seen when we consider that previously there would be a large number of individual machines, separately manned. Not only is there a saving of direct operative labour as a result of the automatic machining; there is also much

saving in the handling of the material between operations, and by the elimination of the labour of loading and unloading the hitherto separate machines.

The Reversal of a Trend

Here, I think, we see another implication. To facilitate mass or flow production, the method traditionally used has been to reduce the work to be done into a number of simple elements - often single operations. This simplification of work, resulted, as we know, in reducing the operative skill required. On this basis, the story of mass production has been one of ever-increasing mechanization. The consequences have been enormous and as a result of it the Americans have grown in wealth and power. We have accepted the process less readily, even resisted it. Our wealth and power have declined. A generation of uninspired management has let the chances slip; a generation of trade union leadership has expressed itself in the negative ways of restriction. Neither has seen in mechanized production the wealth-creating means by which rising social aspirations can be met.

The concept of the transfer machine is significant. It reverses a process. Operations which were dispersed and divided into their simplest elements are now brought together again; machines are re-integrated. There is a new composition and this is a tune we must learn to play.

More than Mechanization

Let us now take two more definitions in our stride - 'the use of machines to run machines' - 'the substitution of mechanical, pneumatic, hydraulic, electric and electronic devices for human organization of decision and effort'.

Automation, therefore, goes beyond a mere acceleration of the rate of mechanization - it is more complex and more subtle. It suits our skills and our minds better. In the significant element of automatic control, new techniques are employed of a kind in which we are not backward. Automation, with its reintegration of production processes, also implies new design conceptions in which we have never lagged behind the Americans.

The introduction of a sensing or 'thinking' element, the ability to exercise choice, is the most significant technical feature of automation in the definitions just given. The limitation of such devices is also significant. The machine is a contrivance and whether or not it works quicker than the human brain, it is incapable of an idea. It is clever at answering questions suited to the mechanism which we have built into it - but that is all. It can signal 'what' has happened, but the 'how' and the 'why' it does not, and cannot, conjecture. It

cannot go beyond its own answers. It cannot think up the questions. It does not speculate. The questions and speculations remain in the human field.

The machines we design to run machines can give answers, but they must have a source of information; the questions to which the answers are given are programmed in information which is supplied to the machine. It is this program which is designed by human agency, which tells the machine what to do next. It is fed into the machine in various ways by tape, or wire, or punched card, for example.

The significant contribution of electronics has been to extend the range of automatic control and the speed with which information can be processed.

Automation and Small Firms

The techniques of automation can be applied, and in fact are applied, to all kinds of manufacturing processes. They need not be confined to large firms. None of us is automatically absolved from considering whether we can apply the techniques to our own production.

I have in mind an example of automation, at next to no cost, in the light machining of a gas fitting component in a small firm. This small brass forging, after initial manual loading, is machined, gauged and unloaded automatically, being carried through four operating stations by a simple rotating indexing table, one operator only being in charge.

The benefits of automation, therefore, need not involve massive capital expenditure. We need not await the push-button era. We have to avoid the push-button brain which says it can't be done.

Consider, for example, the handling of the work piece in machining operations. The improvements in metal cutting have been great, but this is not so in work handling and work manipulation. It is within the scope of automatic linking and transfer devices to redress the balance. For the handling of work, machines can readily be designed, automatically to push or pull, lift or lower, turn or tilt, transfer from one operation to the next, to clamp quickly and loosen equally quickly.

It is also open to us to achieve a step-by-step, progressive or piecemeal approach to productivity improvement by the use of selected elements of automation technique. We needn't go the whole hog. Whether what we actually achieve is more and better mechanization, which the purists would not define as automation, doesn't really matter – what does matter is that we increase our productivity.

By and large the process industries, such as oil refining, the handling of chemical fluids, the processing of food, have used automation techniques most. In these cases, and in cases where the material can be made to flow uniformly or continuously, as in glass sheet, paper, newsprint, strip metal, wire manufacture, automatic production is most nearly approached.

Electronic computers have a place in many fields,

in research and design establishments, in banking, insurance offices, and all other places where information and data are used and manipulated in volume.

Automation and Employment

More jobs will be created than abolished. New industries, new products, will come into being because the boundaries of what is practical are extended.

The Americans have been quick to see that automation trends open up new business opportunities for firms specializing in automation equipment, including electronics and other automatic controls, as well as machine tools designed for automatic production. Also, that business will develop around the supply of equipment to convert existing plant from non-automatic to automatic production. Indeed, a considerable proportion of production equipment ordered this year in the United States is for this purpose and forecasts have been made – as one would expect – of the increasing proportion to be realized in following years. Also, automatic controls do not merely cut costs – they make possible production processes that could not otherwise be attempted. This will create new products and new industries.

It is true that, whilst providing conditions for the expansion of many firms, automation will severely try many others – especially those slow to respond.

If my proposition that automation techniques are applicable to a wide range of industry, including small and medium as well as large firms, is at all valid, then it follows that the available technical comprehension and knowledge will not be equal to the opportunity unless something is done about it.

I know very well that against any generalization of this kind a thousand disproofs and exceptions can be quoted. Facts are stubborn. No quoting of exceptions, no references to the quality of our best, can get over the fact that for over forty years the productivity of British industry has risen at only half the American rate. We cannot blame it on the workers either, because we have to create the conditions and facilities for high productivity before the willingness of the workers to co-operate enters the situation at all. The management implications, to my mind, are quite clear. We have to see to it – quite systematically and on a large scale – that people responsible for the technical aspects of production are given the opportunity to appreciate the possibilities of combining the knowledge they have with new knowledge.

We must provide the opportunity to acquire knowledge. People cannot apply knowledge which they do not have.

Because automation techniques tend to reintegrate production processes, these processes will often require to be looked at afresh. It will often be desirable to redesign the product. People, set in their ways, and whom we may have confined in those ways, cannot be expected of their own volition to take risks, make things uncomfortable for themselves, and to embark

upon the hard work and study involved, without being stimulated to do so. This is one of the implications of automation so far as management is concerned.

The Product Design

It is almost inevitable that considerations of the automatic production of components or of products in whole or part, will involve reconsideration of the design of the component or of the product.

There are therefore design implications. Automation involves a wide comprehension on the part of the production engineer and the designer. The functions of design and manufacture are brought closer together. The necessity for a broad conceptual approach makes it necessary to refresh and stimulate both.

The broadening of technical education is an overdue reform. However, it is here and recognized in the new Diploma of Technology award and in the large-scale development of sandwich courses at Colleges of Technology. It is to be hoped that commercial education will similarly be developed – and quickly. Again, these developments are not only to serve the large firms. If these advances are to help the national economy in the way they are intended to, the small and medium-sized firms cannot automatically absolve themselves from supporting them.

Whilst I have referred to the broadening of the education of our oncoming, and indeed existing, engineers, mainly in the sense of their technical knowledge, the need goes beyond this. The introduction of automatic or near automatic production, whether it affects a whole factory or only part of a factory, is bound to make a big impact on the human situation in that factory. It involves on the part of the management and the engineers, a human understanding of what they are doing with implications on the way they go about it.

There are, therefore, at the higher technical levels, requirements which go beyond the acquiring of new engineering concepts and technical knowledge. These are required. So also are freshness of outlook, vitality – and a human understanding of the effects of what we are doing – before we can harness to our service all that is new.

Standardization

Whilst I have argued that the application of automation techniques is not exclusive to mass production, none the less, certain demand conditions must apply where capital commitments are high. There must be continuity of demand over a reasonable period. The products of an automatic production system must be specialized. No full-scale automation is likely to be possible where there is a variety of end products (although partial automation may be). The products of the system must be standardized.

This may well involve, as suggested earlier, a considerable rethinking of product design. It may well go beyond product suitability for automatic production, but also have the object of gaining variety

and apparent customer choice by the maximum use of a minimum number of parts. Customer choice may have to be diverted into 'harmless' channels – the choice of colour, for example.

Accounting and Sales

In an automated factory, labour will come to be considered as a fixed cost and not as a current cost which fluctuates directly with the volume of business. Labour will have the nature of a capital resource. Economic fluctuations will have to be taken care of by other means than the engagement and discharge of workers. This may, in turn, involve innovations in financial planning. Fluctuations in business volume may have to be taken up by profits, and change our ideas of the period over which the profits should be reckoned. The profit period may vary according to the industry.

Long-range financial planning is thus involved – and is on all fours with the need to consider designs, production facilities, and sales strategy over the long term – and the need to develop conceptual ability at top management. However, there will be a problem arising from the fact that the ownership of capital is moving into the hands of institutional investors who, by and large, expect a stable return annually. The sales will become a more important centre of management decision and business risk, because the ability to create a market – maintain, expand it and predict its moods and turns – will be all-important.

Drive, push and initiative will not be enough. It will be necessary to use market research and other appropriate techniques in an attempt to establish objective bases at this new focal point of business risk. This deeper market investigation will be just as necessary in the automated small business as in the large one – whether one is making needles, paint brushes, or motor-cars – because the absolute importance of the risk of imperfect marketing decision is equally important in each case once the business is committed to automatic production.

General Management Implications

Automation is here and we could not arrest it even if we wished to. It belongs to today and tomorrow and we cannot get rid of either. For the workers in great number it means a step forward. This because it uses man's specifically human qualities – as Professor Weiner has pointed out – it uses his ability to think, to analyse, to balance, to decide and to act purposefully.

For managers, it means that we have seen the last of the managers who are 'born and not made'. The manager in automation will need to be highly educated in a managerial sense – and that is a wide sense; he will need to have acquired systematic knowledge and to be able to handle systematic knowledge. He will need to fit into the environment of a different era. Automation is a complete logic of business and manufacture and encompasses much.

This probably means the end of intuitive manage-

ment. Many companies, often large-scale producers, have their main strength in one direction or another – one in manufacture – another in sales – another in its accounting techniques – yet another in design and development. This is often because the head of the company and his immediate colleagues have their

own strength concentrated in one or another field – they may be production engineers, or salesmen or accountants – which results in a deformation.

I have to submit on the logic of my previous arguments that in an automated industry this one-track approach quite simply will not do.

Weekly Notes

Sir Harold Barton retires from the Council of the Institute

The retirement of Sir Harold Barton, F.C.A., from the Council of The Institute of Chartered Accountants in



England and Wales was received with great regret at the Council meeting held on July 3rd, reported elsewhere in this issue.

Sir Harold was the senior Past President of the Institute serving on the Council, to which he was appointed in 1928. He was admitted an Associate of the

Institute in 1904 and was elected to Fellowship in 1914. Co-founder of the firm of Barton, Mayhew & Co, Sir Harold remained as senior partner until his retirement from the firm in 1954. He is a past member of the Panel of Judges of *The Accountant* Annual Awards. We are indebted to one who has been his colleague on the Council for many years for the following tribute:

The Council of the Institute is suffering yet another great loss in the retirement of Sir Harold Barton, its senior Past President.

Sir Harold at the time of his retirement in 1954 from his firm, Messrs Barton, Mayhew & Co, was a founder member of that firm which he established from scratch with his former partner Mr (now Sir Basil) Mayhew, as long ago as 1908. Few members can claim such a record.

Sir Harold was Vice-President of the Institute during the two years 1942-43 and 1943-44, and was President in 1944-45. He was appointed first Chairman of the Taxation and Financial Relations Committee (the predecessor of the Taxation and Research Committee) in 1942 and when he resigned in order to become Vice-President he received a presentation from his colleagues on the Committee in recognition of all that he had done towards getting the venture successfully launched – its subsequent success no doubt owes much to his guidance in those early days.

He has, in his time, been on most of the committees of the Institute and chairman of many of them. He was the first chairman of the Disciplinary Committee in 1949, an onerous post which he held till his retirement.

Sir Harold was elected to the Council in 1928 and perhaps his most important contribution was in the closing years of the war and in the early post-war years. At that time he interested himself wholeheartedly in the reinstatement of the Institute following the war and he will be particularly remembered for his work in connection with the Planning Committee (of which he was chairman), refresher courses, the tuition scheme problems and all other matters concerning the younger members. He served for many years on the Co-ordinating Committee and when that scheme failed, played an active part in the deliberations leading up to the proposals for integration with The Society of Incorporated Accountants. He deferred his resignation from the Council till such time as these proposals had been accepted by the members of the Institute.

He leaves with the respect of all members and with their gratitude for what he has done for them and for the profession. He will indeed be sadly missed.

Control of Securities in Foreign Currencies

On July 5th there came into force the Control of Foreign Currency Securities Directions, 1957 (S.I. 1957, No. 1172), the effect of which, broadly speaking, is to prevent persons resident in the United Kingdom from buying foreign securities from persons not so resident.

Except with permission granted by or on behalf of the Treasury, no order given by or on behalf of a person resident in any part of the scheduled territories (i.e. the sterling area) outside the United Kingdom, is to be carried out, in so far as the order requires the person to whom it is given to part with any securities to which the new directions apply, or requires any change to be made in the persons to whose order any such securities are held. The directions apply to securities on which capital moneys, dividends or interest are payable in any foreign currency or as respects which the holder has an option to require payment of any capital moneys, dividends or interest in any foreign currency.

The directions give the same meaning to 'foreign currency' and 'scheduled territories' as they have in the Exchange Control Act, 1947. In that Act the word 'securities' also has a special meaning, and includes shares, which are not, strictly speaking, securities, but this particular definition is not mentioned in the new directions. It is perhaps questionable, therefore, whether they hit shares.

The Chancellor's comments on the directions are reproduced under 'In Parliament' on page 56 of this issue.

Building Societies and Profits Tax

The Chancellor of the Exchequer has promised to look into the position of building societies in relation to profits tax, and to do this in time for the report stage of the Finance Bill. The Royal Commission on Taxation expressed the view that the present basis of assessing building societies to profits tax was indefensible in that interest paid to shareholders was not deducted in arriving at the taxable profit. A new clause to the Finance Bill was moved in the House of Commons to exempt building societies altogether from profits tax and received very strong support from both sides of the House. In reply the Financial Secretary to the Treasury said that building societies were engaged in the business of lending money and their profits were a natural subject of assessment to profits tax. He agreed that the Royal Commission had recommended that interest paid to shareholders be allowed in arriving at that profit but this was only a minor one of a number of recommendations about profits tax in general on which the Chancellor had not yet reached his conclusions as a whole; he thought it wrong to give effect to only one recommendation without considering the others.

This brought protests that while the Report in question was already two years old, the legislation on overseas trade corporations was extremely complicated and time had been found to bring that in. The Chancellor then intervened to point out that the clause provided for complete exemption and was therefore unacceptable. As to the point about share interest, it would be difficult to deal with it separately from the other recommendations but he would, as indicated above, look into it in time for the report stage.

The Finance Bill as Amended

As mentioned in a leading article on another page, the Finance Bill was republished on Tuesday with the amendments made in Committee. There is a new clause 6 dealing with excise duty on tower wagons used for repairs, and a new clause 16 extending industrial building allowances to bridge undertakings. This has involved the renumbering of the original clauses 6 to 39 inclusive. In addition to the new clauses, there were other amendments to some of the original clauses and schedules.

Compulsory Book-keeping for Income Tax?

The Royal Commission on Taxation recommended in paragraph 1052 of its final report that traders be placed under a statutory duty to keep records of their transactions, the Inspector of Taxes being empowered to grant dispensations in individual cases. On the Committee stage of the Finance Bill, a new clause was moved to give the Inspector the right to require persons carrying on trades or businesses to keep such books and forms of account as may be prescribed by the Inland Revenue. Under the clause, a person on whom the Inspector served a notice would have not more than thirty days in which to make a declaration in writing that the requirements of the

notice were being complied with. If he neglected or refused to make the declaration, or it was false or untrue in any particular (including apparently the date) he would be liable to a penalty of £20. The new clause was rejected by a majority of 24.

Arguing against the clause, the Economic Secretary to the Treasury said its mover was *plus royaliste que le roi*. Modest taxpayers often had great difficulty in keeping accounts. As to the argument that the clause would reduce evasion, Mr Birch pointed out that evasion was not confined to people who kept no accounts. Accounts kept in pursuance of the clause would often be defective owing to the lack of education of the persons keeping them, and this would throw a heavy additional burden on the Revenue. The clause itself was defective in that it compelled the taxpayer to make the declaration but did not compel him actually to keep the accounts; he would look into the matter and consider whether something might be done next year.

Estate Duty: Maturity of Policy not an 'Interest Arising'

The scope of estate duty is enormously extended by Section 2 (1) (d) of the Finance Act, 1894, which imposes duty on interests provided by the deceased 'to the extent of the beneficial interest accruing or arising by survivorship or otherwise on the death of the deceased . . .'. The estate duty office for many years argued that where the deceased had provided an assurance policy on his own life, an interest necessarily 'arose' on his death when the policy moneys became payable. This argument was much cut down by the House of Lords decision in *D'Avigdor-Goldsmid v. C.I.R.* (32 A.T.C. 26) that where a paid up policy was held absolutely before the death, no interest 'arose' on the death—the policy moneys merely became payable.

In *Westminster Bank Ltd v. C.I.R.* and *Wrightson v. C.I.R.* (*The Times*, July 5th, 1957) the estate duty office sought to distinguish the case where life policies were held on trust for some person for life, or where there was a settlement of policies with a direction as to how the proceeds on maturity were to be held. Harman, J. held that the *D'Avigdor* decision applied to both cases. The Court of Appeal, which had found for the estate duty office in that case, also found for the estate duty office in the present cases. However, their decision was reversed, and the decision of Harman, J., restored, by a majority of the House of Lords. Lord Radcliffe, dissenting, agreed with the Court of Appeal, while Lord Reid, though holding that the taxpayer was right in the first case, gave the opinion that in *Wrightson's* case, where the settlement was of the policy moneys rather than of the policies, the interests in question did not arise until the policies matured. This is a very fine distinction which could in any case easily be guarded against by appropriate wording in the trusts. As the law now stands, neither case attracts duty.

Local Government Finance

In a leading article in our issue of February 23rd, 1957, entitled 'Rating and Local Government Finance', we discussed the announcement made by the Minister of Housing and Local Government concerning rating and also the general financial relations between the Exchequer and local authorities. The various changes then contemplated were to be the subject of discussions between interested bodies before receiving their final form. These discussions have apparently been completed. On Wednesday the Government published a White Paper on its proposals for the reform of local government finance which we hope to discuss in a leading article next week.

The Rent Restrictions Regulations, 1957

The Rent Act, 1957, came into force on July 6th, and on the same date there came into force the Rent Restrictions Regulations, 1957 (S.I. 1957, No. 981). These regulations were made under the Rent and Mortgage Interest Restrictions (Amendment) Act, 1933, and under the Rent Act, 1957, and they revoke and replace the Rent Restrictions Regulations, 1954. The new regulations set out a large number of forms to be used by landlords and tenants; forms to be used when a landlord increases the rent of a controlled tenant, forms of notice to be inserted in rent books, forms relating to a landlord's election to be responsible for internal decorative repair, notification by the tenant of disrepair, undertaking by the landlord

to remedy repair defects, and also certificates of disrepair. In addition, there are set out explanatory notes which are to be read in conjunction with the forms.

Australian-Japanese Trade Pact

The recent trade agreement between this country and Australia made it quite clear that the Dominion had every intention of seeking its goods from a much wider selection of suppliers than in the past. Clear intimation was given that so far as Australia was concerned the days of Imperial preference were, if not numbered, at least due for some circumscription.

This week, a trade agreement has been signed between Australia and Japan. From now on, Japanese goods receive most favoured nation treatment in the Australian market. It has thus not taken long for one of this country's strongest competitors in the orient to enter into formal arrangements in a vital United Kingdom market. There had been straws in the wind for some time. Australian business men have shown increasingly that they are looking in many different directions for bids and that they like the idea of having a selection of suppliers to choose from. They have been seen in Western Europe in increasing numbers over the last year or two. This development is not surprising but it is a clear warning to this country that one of its most vital markets is now open to increasing price, quality and servicing competition and less influenced than once it was by sentiment alone.

Finance and Commerce

Hopes that the gilt-edged market may now have 'grounded' have made little impression on the volume of support continuing in the equity sections. Obviously increasing inflationary pressure through higher coal and freight charges and increased wages has re-emphasized the investment need to achieve protection for capital worth.

Rolls-Royce

The accounts of Rolls-Royce Ltd for the year to December 31st, 1956, which we reprint this week, mark the fiftieth anniversary of the company's incorporation. It started in 1906 with a capital of less than £50,000; it finishes its half-century with capital and reserves exceeding £23 million and while in comparisons of this nature we are always mindful of the effects of inflation, the figures are none the less impressive.

The company enters its second half-century facing a task which in the words of its new chairman, Lord Kindersley, who has this year succeeded Lord Hives, virtually amounts to creating a new business. Future air defence is with the guided missile. The company has an interest in rocket motor development in

association with North American Aviation Inc of America, but as a purely military project, says Lord Kindersley, this is unlikely to produce a volume of production comparable to the fighter and bomber engines which are being replaced. In meeting the new situation, depreciation on research and development items of plant associated with military projects has been accelerated.

In addition, the general charge for depreciation is substantially higher by reason of the large amount of new equipment which is being brought into use.

More Capital

Finance for this development was obtained during the year by an issue of 1,100,000 £1 shares at 77½d. There was also an issue of 32,750 £1 shares valued at £5 as part consideration for the ordinary capital of Sentinel (Shrewsbury) Ltd, which provided the Group with production capacity not in full use by that company. The Board in the last few weeks has made a further issue of 2,157,250 shares at 95s to shareholders, to enable the company 'to grasp the opportunity of obtaining a substantially greater share of the world market for aero engines and at the same

time maintaining, and indeed increasing, the diversification of products in our other divisions'. The next decade will see the gas turbine replacing the piston engine on the world's air routes.

A further line of development is in Rolls-Royce oil engines which are being used in earth moving, marine and railway equipment. A railway traction department has been set up to promote sales of complete transmission units, control systems, engines and torque converters. British Railways are interested and overseas orders are coming in.

A point in the accounts this year is the provision of two years of comparison for the revenue figures. The 1955 results were adversely affected by the seven-week strike in the Scottish factories.

Recruiting Staff

'It pleases me to think that not all ideas originate on the other side of the Atlantic', writes Mr C. H. R. Fancote, A.C.A., secretary of Bell & Nicolson Ltd, the Birmingham textile distributors. Mr Fancote refers to our issue of June 8th, in which we noted the appeal for staff nominations in the Caterpillar Tractor Company's quarterly report. Shareholders in the American company were invited to recommend applicants.

Bell & Nicolson did this in their 1954 report. 'Your company', said Mr H. C. Bell in his annual statement, 'is always prepared to engage young people of the right type for training for management and is continually emphasizing the prospect of careers in the wholesale textile trade to the Juvenile Employment Bureau, schools' careers masters and the general public.

'An interesting booklet giving information on working conditions and possibilities of promotion with the company has been prepared, and copies will be sent on application to any shareholder who may wish to interest someone looking for a career in our trade.'

It would be interesting to know what success the company had in seeking staff by shareholder contact.

Comparison Colour

What is the best method of distinguishing comparative figures from those of the year under review? Some use italics; some a coloured background; some contrast light against heavy type; some use red for the comparison. A wide variety shows how opinion differs. Courtaulds Ltd this time has dropped red for a shade of blue and among the slight changes that have been made in presentation, the directors hope that the new choice of colour will in particular prove helpful. When one comes to think of it, red has always been associated in figures with a situation that it is well to avoid.

In the main, the accounts are in the form with which shareholders are now familiar, which means a single column, dual parent-group balance sheet showing totals of net tangible assets in terms of totals of capital and reserves. One quarto page suffices but two further pages are required for the detail given in the form of schedules and another page for notes on the accounts.

What is less usual is the use of similar presentation for the profit and loss account, where to the left of the opening is given the main figures and to the right the detail in two schedules, the first containing the items taken into account in arriving at the main figures (depreciation, directors' and auditors' fees, etc.) and the second, the taxation figures.

Money Market

Applications for Treasury bills totalled £423,640,000 on July 5th and at a maintained bid of £99 or 9d the market's allotment was 42 per cent. With outside competition strong the average rate eased slightly to £3 16s 11-66d per cent. The whole of the £260 million of bills offered was allotted and this week's offer is £250 million.

ROLLS-ROYCE LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED PROFIT AND LOSS ACCOUNT for the Year ended 31st December, 1956

	1956 £	1955 £	1954 £
PROFIT ON TRADING, after charging the items listed in note 1	4,604,868	3,911,369	4,416,315
ROYALTIES AND INTEREST—note 2	725,675	733,003	842,503
CONSOLIDATED PROFIT before taxation	5,330,543	4,644,372	5,258,818
ESTIMATED TAXATION—note 3	3,200,000	2,515,000	3,290,000
CONSOLIDATED PROFIT after taxation—note 4	£2,130,543	£2,129,372	£1,968,818
APPROPRIATIONS			
Interim dividend of 5%, less income tax at 8s 6d in the £	213,968	172,500 (5%)	165,000 (5%)
Proposed final dividend of 15%, less income tax at 8s 6d in the £	649,466	453,504 (12½%)	431,250 (12½%)
Transfer to general reserve	1,000,000	1,000,000	1,000,000
Added to undistributed profits carried forward	267,109	503,368	372,568
	£2,130,543	£2,129,372	£1,968,818

Comparative figures: As indicated last year the trading results for 1955 were adversely affected by the seven week strike at the Scottish factories. For comparison purposes it has therefore been considered useful to add the figures for 1954 in the Profit and Loss Account and accompanying notes.

Notes on and forming part of the accounts are given on pages 12 and 13 [Reproduced on page 46].

<u>£43,766,210</u>	<u>£33,337,665</u>
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Notes on and forming part of the accounts are given on pages 12 and 13. [Reproduced on page 46]

ROLLS-ROYCE LIMITED
BALANCE SHEET, 31st DECEMBER, 1956

	1956	1955		1956	1955
	£	£		£	£
CURRENT LIABILITIES			CURRENT ASSETS		
Trade and other creditors	10,342,297	7,740,451	Cash and bank balances	375,874	567,436
Accrued taxation	2,128,987	2,212,925	Tax reserve certificates	382,675	1,629,800
Subsidiary companies	450,926	206,303	Trade and other debtors, after making provision for doubtful debts	12,802,390	7,794,109
Associated company	250,176	187,097	Stock of raw materials and partly and wholly manufactured goods, at the lower of cost or market value ..	23,705,004	19,474,597
Proposed final dividend for the year to date, less income tax	649,466	453,504	Less payments received on account	13,360,593	7,088,124
	<u>13,821,852</u>	<u>10,800,280</u>		<u>26,921,532</u>	<u>22,377,818</u>

DEFERRED LIABILITIES

Estimated future taxation on profits earned to date ..	2,565,000
Provisions for future expenditure on guarantees, retirement benefits and accident liability—note 1 ..	<u>3,065,119</u>

4% DEBENTURE STOCK 1974-84 (Secured)

	4,000,000
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CAPITAL AND RESERVES

Share capital—note 5	7,518,058	6,248,772
Share premium account—note 5	3,293,500	—
Capital reserves	235,859	235,859
Revenue reserves:		
General reserve	5,700,000	4,700,000
Undistributed profits carried forward ..	<u>1,709,964</u>	<u>1,470,154</u>
	7,409,964	6,170,154
	18,457,381	12,654,785

INTERESTS IN OTHER COMPANIES

Subsidiary companies:	£
Investments at cost	3,337,903
Loan and current accounts	<u>1,805,716</u>
Other trade investments:	5,143,619
Investments at cost	372,390
Investment at directors' valuation, less than cost	200,000
Loan and current accounts	<u>559,171</u>
	<u>1,081,561</u>
	6,225,180

PROPERTY AND PLANT

	Cost	Depreciation
	£	£
Land and buildings	4,973,683	2,123,656
Plant and machinery	10,417,929	5,191,948
Furniture, fittings and office machinery ..	930,635	535,575
Transport vehicles	548,377	256,806
	<u>£16,870,624</u>	<u>£8,107,985</u>
1955 Totals	<u>£12,754,132</u>	<u>£6,521,918</u>
	8,762,639	6,232,214

GOODWILL, PATENTS AND TRADE MARKS

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On behalf of the Board

KINDERSLEY } Directors
J. D. PEARSON }

Notes on and forming part of the accounts are given on pages 12 and 13. (Reproduced on page 46)

£41,909,352 £32,021,857

ROLLS-ROYCE LIMITED

NOTES ON AND FORMING PART OF THE ACCOUNTS FOR 1956

1. PROFIT ON TRADING

The profit on trading is arrived at after charging:

	1956 £	1955 £	1954 £
Depreciation on property and plant	1,869,051	1,193,510	1,089,189
Transfers to provisions not capable of exact ascertainment:			
Addition to provision for guarantee (parent company £487,175)	488,319	299,604	348,139
Special provision for retirement benefits for employees in respect of past service (parent company £181,152)	230,687	230,627	435,000
Ordinary shares—expenses of issue	83,128	—	—
4% Debenture stock 1974-84:			
Discount and charges on issue	—	—	174,199
Interest, gross	160,000	160,000	55,089

In past years the charge for depreciation has included amounts equivalent to inland Revenue Initial Allowances. Since 1st January, 1956, normal items of capital expenditure are being depreciated in equal instalments over their expected life. The new basis results in the depreciation provided on normal items of capital expenditure being lower by some £360,000, but this amount is more than offset by accelerated depreciation on research and development items of a capital nature associated with military projects.

2. ROYALTIES AND INTEREST

	1956 £	1955 £	1954 £
Royalties	456,087	574,887	787,232
Income from trade investments	92,262	35,695	19,560
Interest	177,326	122,421	35,711
	<u>£725,675</u>	<u>£733,003</u>	<u>£842,503</u>

3. ESTIMATED TAXATION

United Kingdom taxation has been estimated on the profits of the year thus:

	1956 £	1955 £	1954 £
Income tax	2,590,000	2,150,000	2,910,000
Profits tax	610,000	365,000	380,000
	<u>£3,200,000</u>	<u>£2,515,000</u>	<u>£3,290,000</u>

The company and its United Kingdom subsidiaries have been granted profits tax non-distribution relief. In the event of a distribution to stockholders from reserves, including the undistributed profits carried forward, a charge to profits tax would be incurred.

4. CONSOLIDATED PROFIT after Taxation

	1956 £	1955 £	1954 £
Group profit	2,130,543	2,129,372	1,968,818
Profit dealt with in the accounts of the parent company	<u>£2,103,244</u>	<u>£2,172,766</u>	<u>£1,932,086</u>

5. SHARE CAPITAL

The issued ordinary capital increased during the year by the issue of 1,100,000 ordinary shares of £1 each in March 1956 at 77s 6d per share and the issue and allotment in October 1956 of 32,750 ordinary shares of £1 each valued at £5 per share to certain holders of ordinary shares of Sentinel (Shrewsbury) Limited in pursuance of the terms of the offer to acquire their shares. The amount of share premium account arising from these issues is £3,293,500.

The authorised capital in unissued ordinary shares of £1 each into 220,000 workers' (1955) the conversion of 110,000 unissued ordinary shares of £1 each into 220,000 workers' (1955) shares of 10s 0d each.

A further 175,350 workers' (1955) shares have been issued and at 31st December, 1956, £11,984 was outstanding; this amount has now been received.

The capital of the company at 31st December, 1956, was as follows:

	1956 £	1955 £
Authorised:		
Ordinary stock	.. .. .	7,132,750
Workers' (1955) shares:		
1,420,000 shares of 10s 0d each	.. .. .	710,000
Ordinary shares of £1 each	.. .. .	2,157,250
	<u>£10,000,000</u>	<u>£10,000,000</u>

Issued:

	1956 £	1955 £
Ordinary stock	.. .. .	7,132,750
Workers' (1955) shares of stock units of 10s 0d each:		
Fully paid — 701,807 stock units (1955, 241,259)	.. .. .	350,903
Partly paid — 92,777 shares (1955, 377,975)	.. .. .	34,405
	<u>£7,518,058</u>	<u>£6,248,772</u>

6. REMUNERATION OF DIRECTORS OF THE PARENT COMPANY

	1956 £	1955 £
Fees	.. .. .	6,000
Management	.. .. .	109,183
Pension contributions (excluding £6,554 charged against the provision therefor; 1955, £12,253)	.. .. .	23,925
	<u>£118,113</u>	<u>£118,113</u>

7. PAYMENT TO A PAST DIRECTOR

An ex gratia payment of £23,000 has been made to a past director.

8. CONTINGENT LIABILITY

There is a contingent liability of £90,000 for uncalled capital on an investment (1955, £90,000).

9. EXCHANGE RATES

Foreign currencies have been converted into sterling as follows:
Fixed assets at the rates ruling at the dates of acquisition; other assets and liabilities at the rates ruling at the date of the balance sheet.

10. COMMITMENTS FOR CAPITAL EXPENDITURE

Commitments for capital expenditure amount to approximately:

	1956 £	1955 £
Group	.. .. .	4,668,000
Parent company	.. .. .	4,525,000
	<u>£9,193,000</u>	<u>£9,193,000</u>

11. CAPITAL RESERVES

The reduction of £90,246 in the capital reserves shown in the consolidated balance sheet represents the excess of the purchase price over the book value of net assets of Sentinel (Shrewsbury) Limited at the date of acquisition.

Reviews

Restrictive Trade Practices

by K. C. JOHNSON-DAVIES, T.D., M.A. (CANTAB.)
Barrister-at-Law, and R. D. HARRINGTON, Barrister-
at-Law

(Macdonald & Evans Ltd, London. 25s net)

The purpose of this book is better described in its sub-title, 'The Business Man's Guide to the Act'. It is a matter for some debate how far it is possible to explain the law, particularly this 'most complex measure' as the joint authors describe the Act, in terms comprehensible to the average business man.

The authors succeed fairly well in their task. They open with a brief historical review of the circumstances leading to the Government's Monopolies Commission and follow with an outline of the objects and main features of the Act as passed last year. A copy of the Act is given in an appendix. The reader is then guided through the main provisions of the Act and their requirements and implications are clearly expounded with suitable quotations from the relevant legislation. To enable the business man to determine whether any agreement to which he is signatory requires registration, the authors have devised a questionnaire posing the relevant questions whereby the reader may clarify his own mind on this vital issue.

There will not be many business men who will be prepared to work their way through the authors' reasoned and undoubtedly lucid argument. For that reader something much simpler is needed. But this is undoubtedly an excellent guide to the professional man whose advice will be sought by the business man on this subject. The authors have provided a readable introduction to the complexities of the Act and any accountant who will in time be dealing with this legislation will find his path made easier for him by a preliminary reading of this book.

Nyland on Stamp Duties

Second Edition

by F. NYLAND, LL.B.

(Butterworth & Co (Publishers) Ltd, London.
25s net; 26s 3d by post)

Boldly entering a field where many experts fear to tread, Mr Nyland has produced a book which, while intended primarily for candidates for the Law Society Final examination, will prove useful to legal and accountancy practitioners in their work. With this in view, the book is divided into two parts: there are 138 pages of exposition in narrative form followed by an appendix almost as long in which the individual duties are set out in tabular form with copious notes.

This taking of two bites of the cherry is not an ideal arrangement for the reader having a particular point of inquiry, for he has to look in two places

each time. Moreover, the narrative form of exposition of rates of duty presents great difficulties which the author has not entirely overcome.

Apart from minor inaccuracies, however, such as showing the collateral security duty as 2s 6d instead of 1s per £100, and one conveyance duty for all amounts of £50 and under, the book should certainly help to reduce the present general state of ignorance of stamp duty law.

Local Expenditure and Exchequer Grants

(The Institute of Municipal Treasurers and Accountants, London. 42s post free)

In 1954, the Council of The Institute of Municipal Treasurers and Accountants sponsored a research group to analyse the whole system of Exchequer grants to local authorities in England and Wales, Dr Lees, of the University College of North Staffordshire, being appointed as independent chairman. The result, now published, is a truly monumental work on the subject which should be of very great permanent value, as well as being of the highest use in the final formulation of the new system which is expected to be included in the anticipated White Paper of local government finance.

Spicer & Pegler's Income Tax and Profits Tax

Twenty-second Edition

by H. A. R. J. WILSON, F.C.A., F.S.A.A.

(H.F.L. (Publishers) Ltd, London. 30s net)

Spicer, Pegler & Wilson are names which need no introduction to anyone acquainted with the field of income tax exposition to students; moreover a book does not go to twenty-two editions unless it is very good. In this latest edition the editor acknowledges the help he has received from the many people who have made suggestions for improvements of the work, which is another indication of its wide readership. It is enough to say that there has been no deterioration in standards and, hardly less important, no appreciation in price.

One Thousand Questions and Answers on Company Law

by FRANK H. JONES, F.A.C.C.A., A.C.I.S., in collaboration
with RONALD DAVIES, M.A., Barrister-at-Law

(Jordan & Sons Ltd, London. 27s 6d net)

The author makes the point in his preface that the professional man, the business executive, or the examination candidate who is faced with a company law problem usually seeks the answer to a specific question. With his experience of catering for examination candidates, Mr Jones is in a good position to

know what these questions are likely to be and he has gathered together a thousand of them and given the appropriate answers. The answers are of a brevity and pithiness that should appeal to an examiner and it seems clear that the utility of the book will be at its greatest in the hands of an examination candidate. It is not, of course, a substitute for a more systematic exposition of company law but should prove a very useful adjunct.

SHORTER NOTICES

PITMAN'S BUSINESS MAN'S GUIDE, a comprehensive dictionary of commercial information. Thirteenth Edition. (Sir Isaac Pitman & Sons Ltd, 20s net.) This invaluable dictionary is intended as a compendium for business people and as a repository of commercial information. While the many business matters dealt with cannot be treated in an exhaustive fashion, the book is most useful as a general guide; in many cases the French, German, Spanish and Italian equivalents of English commercial terms and phrases have been given.

THE PRINCIPLES OF ENGLISH LAW by The 'B.C.A.' Tutors. (Textbooks Ltd, Harpenden, Herts. 16s net.) This is a very competently written new book which can be confidently recommended to anyone wishing to acquire a bird's-eye view of the English legal system and of English law. In a book which covers so wide a field, the important matters are careful selection, logical arrangement and clear exposition. All these requirements appear to have been fulfilled by the anonymous authors.

EXECUTORSHIP LAW AND ACCOUNTS, by Charles E. Perry, F.C.A., F.S.A.A., and O. Griffiths, M.A., LL.B., Barrister-at-Law, eleventh edition revised by O. Griffiths, M.A., LL.B., and S. C. Hough, A.I.B. (Textbooks Ltd, Harpenden, Herts. 17s 6d.) The sub-title of this book is *A manual for Intermediate students* and the book constitutes a brief though ably written introduction to the vagaries of executorship law and accounts, amply supported by copious examples. Extensive use is made of tabulation and of bold type to assist the student in his examination preparation.

RECENT PUBLICATIONS

LLOYD'S OF LONDON. A study in individualism, by D. E. W. Gibb, Member of Lloyd's. ix+387 pp. 9½×6½. 25s net. Macmillan & Co Ltd, London.

THE THEORY OF WAGE DETERMINATION. Proceedings of a conference held by the International Economic Association, edited by John T. Dunlop. xv+437 pp. 9×6: 36s net. Macmillan & Co Ltd, London.

INTERNAL AUDIT IN THE PUBLIC BOARDS, by W. L. Abernethy, A.S.A.A., F.I.M.T.A. vii+189 pp. 8½×5½. 27s 6d net. Shaw & Sons Ltd, London.

THE FASCINATION OF NUMBERS, by W. J. Reichmann, A.C.I.S., F.I.A.I. 176 pp. 8×5½. 15s net. Methuen & Co Ltd, London.

LIFE AND OTHER CONTINGENCIES, Volume II, by P. F. Hooker, F.I.A., A.S.A., and L. H. Longley-Cook, M.A., F.I.A., F.C.A.S., A.S.A. ix+256 pp. 8½×5½. 20s net. Cambridge University Press.

AN EXECUTOR'S ACCOUNTS AND THE LAW RELATING THERETO, 12th edition, by E. Miles Taylor, F.C.A., F.S.A.A., S. C. Hough, A.I.B., and O. Griffiths, M.A., LL.B., Barrister-at-Law. xx+527 pp. 8½×5½. 27s 6d net. Textbooks Ltd, Harpenden, Herts.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication.

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Share Issues and Premiums

SIR, - It may be that Mr John Monroe is right in his interpretation of Sections 56 and 58 of the Companies Act, 1948 (June 29th issue).

The fact remains, however, that if the cash received from an issue of shares at par is used to pay off preference shares at par and then the share premium account is used to pay a premium on the redemption of debentures, cash will be reduced by £40,000 as against receipts of only £20,000.

This is surely a reduction of capital which cannot have been foreseen by framers of the Act and it suggests a loophole which ought to be closed in future legislation.

Yours faithfully,

Willerby, Nr. Hull.

H. JUBB.

SIR, - Having read Mr John Monroe's most lucid letter on this subject in your issue of June 20th, I would like to emphasize that the purpose of Section 56 of the Companies Act, 1948, in providing for the creation of a share premium account on the liabilities

side of the balance sheet is not merely to satisfy an accounting convention, but to ensure that an amount equal to the premiums received is retained on the assets side and not distributed as dividend. But Mr Monroe's point, in reply to my letter in your June 15th issue, that Section 56 does not require the retention of the actual premiums for this purpose, is well made and I am grateful to him for his observations.

Nevertheless, on the basis of Section 58 alone, the leading authorities support the view that share premiums cannot be used for the redemption of redeemable preference shares, as reference to the following works will show: *Spicer and Pegler's Book-keeping and Accounts* (fourteenth edition) at page 225, *Carter's Advanced Accounts* (fourth edition) at page 670, *Higher Book-keeping and Accounts* (seventh edition) by L. Cuthbert Cropper at page 390, and *Accountancy* (second edition) by William Pickles, at page 872. In each of these cases, premiums received are ignored in calculating the capital redemption reserve fund, presumably on the grounds that the

intention of Section 58 is that redeemable preference share capital is to be replaced upon redemption by an equivalent amount of fresh capital (or a capital reserve convertible only into share capital) in order to maintain the amount of the issue capital before the redemption, and that the substitution of a share premium account for part of the shares redeemed does not achieve this intention.

Admittedly, as a pure exercise of grammatical construction the balance of argument is in favour of Mr Monroe's claim that the term 'proceeds of a fresh issue' includes premiums, but with respect and in view of the above remarks I would submit that without judicial interpretation this is not conclusive.

For similar reasons I am doubtful whether Section 58 (5) embraces the procedure suggested by Mr Alan Knott in your issue of June 22nd, as to the application of the capital redemption reserve fund to the issue of bonus shares at a premium, but again in the absence of any legal decisions I cannot be dogmatic.

Finally, I would like to point out that the absurdity described by Mr Monroe in his last paragraph is his conclusion and not mine, and is I suggest a *non sequitur*. The validity of using for the preference redemption the moneys representing the nominal amount of the fresh issue is quite clearly stated by Section 58. (1) (a), and cannot be affected by any question of whether the premiums received may be so used.

Yours faithfully,

London, N16. RAYMOND EPSTEIN, A.C.A.

Applying Budgetary Control to Maintenance

SIR, - Thank you for the article entitled 'Applying budgetary control to maintenance' by Mr T. S. Welch in your June 29th issue. As more of the 'do' work in industry is performed by machines, the maintenance thereof becomes of greater relevance and the control of the expenditure of more importance.

I would, however, like to help accountants to 'secure the co-operation of engineers' by correctly interpreting their words, and in particular the word 'preventive'. The life cycle in maintenance technique may be described as follows:

'Breakdown' maintenance - repairs only when the machine or plant fails.

'Planned' maintenance - performed regularly according to a plan based on experience of the life of the various parts, i.e. the result of the feed-back of information regarding 'breakdown' maintenance.

'Preventive' maintenance - often in the form of replacement of parts, redesigned or modified so as not to require any maintenance or so that the work of maintenance is reduced, i.e. the result of the feed-back of information regarding 'planned' maintenance.

If this is not so clear as I should like to make it, why not discuss it with your engineers?

Yours faithfully,

Chertsey, Surrey. R. G. CATTELL, A.C.A.

Folkestone Race-course Accounts

SIR, - The Folkestone Race-course accounts, reproduced in your June 22nd issue, contain a particularly interesting treatment of the balance-sheet item 'Implements and utensils - at cost less depreciation'. From the total of this account, representing the balance at December 31st, 1947, plus additions to December 31st, 1955, the total grants from Race-course Fund to December 31st, 1955, is deducted, so that the amount extended into the main column is a fraction only of the cost of this asset, for which no depreciation has been charged since 1947.

Quite apart from the feature that the title of the item is misleading, I should like to draw your readers' attention to the way in which what appears to be an income account is deducted from the cost of an asset. If carried to its logical conclusion, the result of this procedure should be to merge profit and loss account with balance sheet, and eventually to provide us with annual accounts reading simply 'o'.

It would be interesting if those responsible for the Folkestone Race-course accounts could give us their reasons for adopting this method. In fact, it is not the first occasion on which I have encountered this sort of thing in England.

Yours faithfully,

Paris. KENNETH S. MOST.

Money-lender's Business: Valuation

SIR, - We are anxious to get in touch with other members of the profession who have had experience in buying, selling, or valuing a money-lender's business, where substantial amounts of estate duty were involved. Any information which readers may be in a position to furnish would be greatly appreciated.

Yours faithfully,

ARTHUR E. GREEN & CO.

30 Finsbury Square,
London, EC2.

The Institute of Internal Auditors: Formation of Local Chapters

SIR, - We would like to take advantage of your columns to inquire whether in our larger industrial districts (e.g. those concentrated round Birmingham, Glasgow, Leeds, and Manchester) there are sufficient men engaged on internal auditing to form the nucleus of further chapters of the Institute of Internal Auditors.

The Institute of Internal Auditors which was formed in 1941 now consists of fifty-four chapters (most of which lie within the United States of America) with a membership of between three and four thousand.

At the moment, the only chapter in this country is the London Chapter which is now in its tenth year and whose membership is almost one hundred.

Chapter activities consist of about nine monthly meetings per annum at which papers are read by members and guest speakers with subsequent discussions. Membership includes the free receipt of

the Institute's quarterly issue *The Internal Auditor* which runs to some eighty pages per issue, and certain publications such as conference papers.

Full membership is available to those who perform administrative or supervisory internal auditing functions and to others who are qualified by experience and professional training.

Any reader who is interested and would actively

support a chapter is asked to write to the Regional Vice-President, Mr W. J. Smith, C.A., Chief Internal Auditor, B.O.A.C., London Airport, Bath Road, Hounslow, Middlesex.

Yours faithfully,

W. J. SMITH, *Regional Vice-President*,
J. O. DAVIES, *President, London Chapter*,
THE INSTITUTE OF INTERNAL AUDITORS.

Taxation Cases

A full report of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

C.I.R. v. Pollock & Peel Limited

In the Court of Appeal – May 24th, 1957

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice MORRIS and Lord Justice PEARCE)

Profits tax – Issue of bonus shares – Liquidation – Surplus in liquidation – Payment of surplus to shareholders – Whether a gross relevant distribution – Finance Act, 1947, Sections 30, 34, 35, 36 – Finance Act, 1951, Section 31.

The company was incorporated in 1942 with an issued capital of 2,004 shares of £1 each. The company carried on an engineering business, and in 1952 the capital was increased by the issue of 28,056 new shares, which were made fully paid up by the transfer of £28,056 from a reserve account and from the profit and loss account. Thus the issued capital thereafter consisted of 30,060 fully-paid shares which were held by the only two shareholders. On October 31st, 1953, the company went into liquidation, and a new company acquired all the assets except a sum of money which was retained by the liquidator. The consideration for the transfer of the other assets was an issue of shares in the new company, which were taken by the two shareholders of the old company. After discharging the debts of the old company and the costs of the administration the liquidator had the sum of £15,030, which he paid to the two shareholders.

The Inland Revenue contended that the £15,030 was a gross relevant distribution for the last chargeable accounting period of the company, namely, the period from January 1st, 1953, to October 31st, 1953. In support of this contention the Inland Revenue argued that the £15,030 had to be deemed to be a distribution by virtue of Section 31 of the Finance Act, 1951, and was not a distribution of capital within Section 35 (1) (c) of the Finance Act, 1947; alternatively, that the £15,030 should be dissected so as to ascertain what part of it was capital, and that the remainder was a gross relevant distribution.

Held (affirming the judgment of Mr Justice Upjohn), that even supposing that the £15,030 was a distribution within Section 31, it constituted a distribution of capital to an amount less than the paid up share capital of the company within Section

35 (1) (c); that there was no warrant for dissecting that sum; and that the sum was not a gross relevant distribution for the purposes of profits tax.

National Coal Board v. C.I.R.

In the House of Lords – May 29th, 1957

(Before Lord MORTON OF HENRYTON, Lord REID, Lord RADCLIFFE, Lord COHEN and Lord KEITH OF AVONHOLM)

Profits tax – Industrial building allowance – Dwelling-houses at colliery – Likely to have little or no value when mine worked out – Both events in distant future – Income Tax Act, 1945, Section 8 (3) – Finance Act, 1947, Schedule VIII, Part I, paragraph 1 (1) (b).

The National Coal Board owned 124 dwelling-houses, which were occupied by persons employed at a mine owned by the board. The mine would close in 2141, as the coal seams would then be exhausted according to the best estimate that could be made. The houses were likely to have a substantial value till 2091, and afterwards to be of little or no value.

In connection with the assessment for the chargeable accounting period ended December 31st, 1951, the board claimed an allowance for the houses on the footing that they would be likely to have little or no value to the board when the mine was no longer worked and accordingly that the proviso to Section 8 (3) of the Income Tax Act, 1945, authorized the allowance claimed. The Inland Revenue contended, on the other hand, that in applying that proviso the value of the houses on the hypothesis that the working of the mine was discontinued at the time when the claim for the allowance was made should be considered; that, so considered, the position was that the houses would not be of little or no value at the relevant time; and that, therefore, the proviso to Section 8 (3) did not apply, and the claim was barred by the subsection. The Special Commissioners decided that the allowance should be given.

Held (affirming the judgment of the Court of Appeal), that the word 'when' in the proviso to Section 8 (3) of the 1945 Act should be read as 'if', that consequently the proviso did not apply, and that the capital expenditure on the houses did not qualify for industrial allowance.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, July 3rd, 1957, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. H. Lawson, C.B.E., President, in the chair; Mr W. L. Barrows, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., Sir Harold Barton, Messrs T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, W. S. Carrington, D. A. Clarke, E. C. Corton, C. Croxton-Smith, W. G. Densem, A. S. H. Dicker, M.B.E., W. W. Fea, Sir Harold Gillett, M.C., Messrs P. F. Granger, D. V. House, Sir Harold Howitt, C.B.E., D.S.O., M.C., Messrs P. D. Irons, R. B. Leech, M.B.E., T.D., R. McNeil, W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, A. D. Walker, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Resignation from Council

The Council received with much regret the resignation of Sir Harold Montague Barton, F.C.A., from his membership of the Council. Sir Harold Barton had been a member of the Council since 1928 and was President in 1944-45.

Re-admission

One application for re-admission to membership was acceded to.

Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (b) for exemption from the Intermediate examination was not acceded to.

Final Examination

One application under bye-law 86 from an articulated clerk for permission to sit an earlier Final examination was acceded to.

Articled Clerks engaging in Other Business

One application under bye-law 57 from an articulated clerk to engage during his service under articles in other business for the sole purpose and to the limited extent specified in the application was acceded to.

Finance Bill

The Council received a report on a discussion at Somerset House on May 27th, 1957, between members

of the Board of Inland Revenue and representatives of the Institute (Mr G. F. Saunders, Mr W. S. Carrington and Mr J. E. Talbot) in connection with a memorandum on the Finance Bill submitted on May 16th, 1957, to the Chancellor of the Exchequer on behalf of the Council.

Certificates of Practice

The following sixteen applications for certificates of practice from associates who have commenced to practise were acceded to:

Addison, Peter Ian; 1948, A.C.A.; (Agar, Bates, Neal & Co), and (Agar, Bates, Neal, King & Co), 106 Edmund Street, Birmingham, 3.

Barsham, Ronald Andrew; 1949, A.C.A.; (Barsham, Nixon & Hamilton), 1 Lincoln's Inn Fields, London, WC2.

Blain, Frank Kilby; 1952, A.C.A.; 246 Barton Hill Drive, Minster, Sheppey, Kent.

Braddy, Eric Charles; 1949, A.C.A.; (Ponsford, Braddy & Co), Pomeroy House, 28A Basinghall Street, London, EC2.

Caplan, Jack; 1954, A.C.A.; 26 Wargrave Avenue, London, N15.

Clark, Thomas Arthur; 1953, A.C.A.; (Harmood Banner, Lewis & Mounsey), 57 Regent Street, Wrexham.

Cunningham, Andrew; 1957, A.C.A.; (Reeves & Rothwell), 5 Laurence Pountney Lane, Cannon Street, London, EC4.

Eldridge, William Henry; 1953, A.C.A.; (†E. S. Polkinghorne & Son), 32 Rainsford Road, Chelmsford, Essex.

Fitzgerald, David Anthony; 1953, A.C.A.; (Charles Tyson & Co), 1 Castle Square, Brighton, 1.

Lewin, Martin Geoffrey; 1957, A.C.A.; (Martin G. Lewin & Co), 25 De Montfort Road, Streatham, London, SW16.

Locke, Douglas Barnard; 1926, A.C.A.; 44 Coombe Lane, Westbury-on-Trym, Bristol.

Peters, Martin; 1957, A.C.A.; (Martin Peters & Co), 24 Hampton Road, Forest Gate, London, E7.

Shelton, James Alan; 1950, A.C.A.; 4 Front Street, Arnold, Nottingham, and 32 Wheeler Gate, Nottingham.

Shepherd, John Bramley; 1953, A.C.A.; (*Charles D. Buckle & Co), 13 Cheapside, Bradford, 1.

Simmonds, Geoffrey Emanuel; 1956, A.C.A.; (G. E. Simmonds & Co), 92 Holmdene Avenue, Herne Hill, London, SE24.

Worthington, Michael James; 1953, A.C.A.; 10 Whitehouse Crescent, Sutton Coldfield.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or the other of the three Institutes of Chartered accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of chartered accountants in Great Britain and Ireland.

Firms not marked † or * are composed wholly of members of the Institute.

Elections to Fellowship

Ten applications from associates for election to fellowship under clause 6 of the supplemental Charter (bye-law 31) were acceded to:

One application from an associate for election to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31) was acceded to.

A list of those who complete their fellowship before July 16th, will appear in *The Accountant* of July 20th.

Resignations

The Council accepted the resignation from membership of the Institute of:

Boynton, Victor Bartholomew, A.C.A., West Bridgford.

Brocklehurst, George, A.C.A., Harrogate.

Rushton, Frank Waddington, M.C., B.COM., F.C.A., Windsor.

Registration of Articles

The Secretary reported the registration of articles of clerkship as follows:

	1957	1956
June	51	43
January to June	593	607

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the

following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Committee	Chairman	Vice-Chairman
Applications	G. F. Saunders	R. P. Winter
District Societies	C. M. Strachan	P. F. Granger
Finance	G. L. C. Touche	Sir S. H. Gillett
General Purposes	W. S. Carrington	A. S. H. Dicker
Investigation	J. Blakey	D. V. House
Library	T. A. H. Baynes	D. A. Clarke
Overseas Relations	Sir T. B. Robson	S. J. Pears
Parliamentary and Law	G. F. Saunders	S. J. Pears
Articled Clerks' Sub-Committee	C. U. Peat	E. C. Corton.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr William Chaloner, O.B.E., T.D., F.C.A., Stockport.

" Hedley Ernest Albert Garrett, F.C.A., Eastbourne.

" David Burnsall Harris, M.A., A.C.A., Northwood.

" William Henry Haswell, A.C.A., Chester.

" Ian Macdonald Henderson, T.D., B.A., F.C.A., St Mawes.

" John William Kneeshaw, F.C.A., Burnley.

" Percy Martin, F.C.A., Bolton.

" Reginald Percy Stone, F.C.A., London.

" Herbert Colchester Truran, A.C.A., Newport, Mon.

" John Moss Williamson, F.C.A., Ashton-under-Lyne.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on June 5th, 1957.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Eric Bertram Lewis, A.C.A., was at the Assizes for the County of York, Leeds Division, held on March 18th, 1957, convicted of three charges, namely, (1) Between March 12th and October 31st, 1956, at Leeds, being a trustee, that is to say being the liquidator of a limited company, with intent to defraud, converting to his own use the sum of £1,810, part of the property of the said company; (2) On August 21st, 1956, at Leeds, being entrusted with the sum of £45 5s in order that

he might pay or deliver the same to a third party, fraudulently converted the said sum to his own use and benefit; (3) On November 15th, 1956, at Leeds, being a director of a public company, fraudulently taking to his own use the sum of £50, part of the property of the said company, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Eric Bertram Lewis, A.C.A., had been proved and the Committee ordered that Eric Bertram Lewis, A.C.A., formerly practising at 10-12 East Parade, Leeds, be excluded from membership of the Institute.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

De Divina Proportione; by Luca Pacioli. Milan. 1956. (Reproduction, by Banca di Credito Finanziario, of work originally published in Venice in 1509. Presented.)

The Farm as a Business: a handbook of standards and statistics . . . (Ministry of Agriculture.) 1957. (H.M.S.O., 7s.)

A Guide to Kenya, Uganda and Tanganyika Income Tax, by P. Thian. Nairobi. 1955. (E. A. Price, 10s 6d.)

His Royal Highness the Duke of Edinburgh's study conference on the human problems of industrial communities . . . (Duke of Edinburgh.) two volumes. 1957. (O.U.P., 42s.)

The Income Tax Act . . . 1957 . . . annotated . . . ; by H. H. Stikeman. Toronto. 1957. (De Boo, \$6.00.)

Industry and Technical Progress: factors governing the

speed of application of science; by C. F. Carter and B. R. Williams. 1957. (O.U.P., 25s.)

Operations Research for Management, by J. F. McCloskey and Florence N. Trefethen. Baltimore. 1954. (Johns Hopkins Press, 60s.)

Professional Ethics of Certified Public Accountants, by J. L. Carey. New York. 1956. (American Institute of Accountants, 31s.)

The Punched Card Annual of machine accounting and data processing: volume 5 (Punched Card Publishing Co) Detroit. 1956. (P.C.P., 63s.)

The Rent Act, 1957; by A. Bramall. 1957. (Sweet & Maxwell 12s 6d.)

Sixty Years of the Chartered Insurance Institute 1897-1957, by H. A. L. Cockerell. 1957. (C.I.S., presented.)

SCOTTISH INSTITUTE'S FIFTH SUMMER SCHOOL

The dignified grey stone buildings of the ancient city of St Andrews and the mile upon mile of golden sands stretching away beside the golf courses, form an ideal background for the summer schools of The Institute of Chartered Accountants of Scotland. By some mysterious coincidence the fifth summer school assembled on Friday of last week – the last day of the Open Championship; and for most of those attending the friendly sherry in the common-room with which the school opened, concluded a day of exciting golf.

The school got off to a quick start after dinner that evening with a provocative address by Mr Stewart G. Gillies, C.A., entitled 'As I see it'. Mr Gillies was for a number of years city editor of the *Daily Express* and is now in business. As he saw it, his former profession was guilty of closing its eyes to the most important economic fact of the day – inflation. In his opinion, no Government would have the courage to take the measures necessary to curb inflation and it was here to stay. He thought that in the many cases where fixed and current assets were expressed in completely different kinds of £s and where the provision for replacement of fixed assets was inadequate, it was wrong for auditors to certify that the account gave a true and fair view.

Mr Gillies' theme of inflation and its effects and his spirited defence of take-over bids were supported by a wealth of examples drawn from personal experience. The lively discussion which followed did little to reconcile opposing views on accounting in an inflationary period, but did much to underline the importance of a clear understanding of the effects of inflation.

Professional Topics

The method of debating the three major professional topics dealt with by the school this year followed the pattern established in previous years. Each morning the lecturer supplemented his printed paper by an address designed to bring out the important points and to provoke discussion. After coffee the discussion groups met to consider the particular aspects of the paper which had been allotted to them. The afternoons were left free for recreation and the school assembled after dinner to hear the comments of each group and to take part in general discussion.

On Saturday, Prof. Robert Browning, M.A., LL.B., C.A., presented a carefully designed paper entitled 'The accountant and his client'; in his own words this comprised

'some thought on the services which the accountant in public practice can render to persons carrying on small and medium-sized businesses and possessed of moderate means'.

The first major point made by Prof. Browning was that the accountant must at the outset be efficient himself and that a high standard of professional integrity was no excuse for dilatory or inefficient work. The speaker quoted Albert Einstein as saying 'I never think of the future. It comes soon enough'; and wondered how many practising accountants took the same view.

Many points of office organization and staff planning were touched upon and some interesting suggestions

were made. Thus Prof. Browning considered it important that the scale of professional fees should be such as to enable practising accountants to pay salaries which are competitive with those ruling in industry and so retain efficient staff. He therefore suggested that fees should be reviewed every year so that salaries could be increased annually; he opposed the idea of fixing fees for several years ahead.

The professor considered that in far too many cases accounts are looked upon by both accountant and client as merely a requirement of the Companies Act or a means of settling the taxation liability. He suggested that personal discussion of accounts with clients was invariably appreciated and that simple financial advice, such as would spring from a thoughtful comparison of the results of two years, could well lead to improvement in their businesses, and as a result, further progress with the clients.

The points which gave rise to most discussion were the approach to taxation and estate duty problems, the problem of the inefficient client and the suggestion that accountants can be of real assistance to clients in helping them to evolve a satisfactory system of tabulating information which can help in resolving business problems.

Accounting Films

On Sunday the service in the Collegiate Church of St Salvator was conducted by Prof. J. H. Baxter, M.A., B.D., D.LITT., D.D., Regius Professor of Ecclesiastical History and Dean of the Faculty of Divinity, University of St Andrews. After tea, two films were shown – 'Accounting – the Language of Business' (lent by *The Accountant*), and 'Electronics for Accounting and Business' (lent by Arthur Andersen & Co).

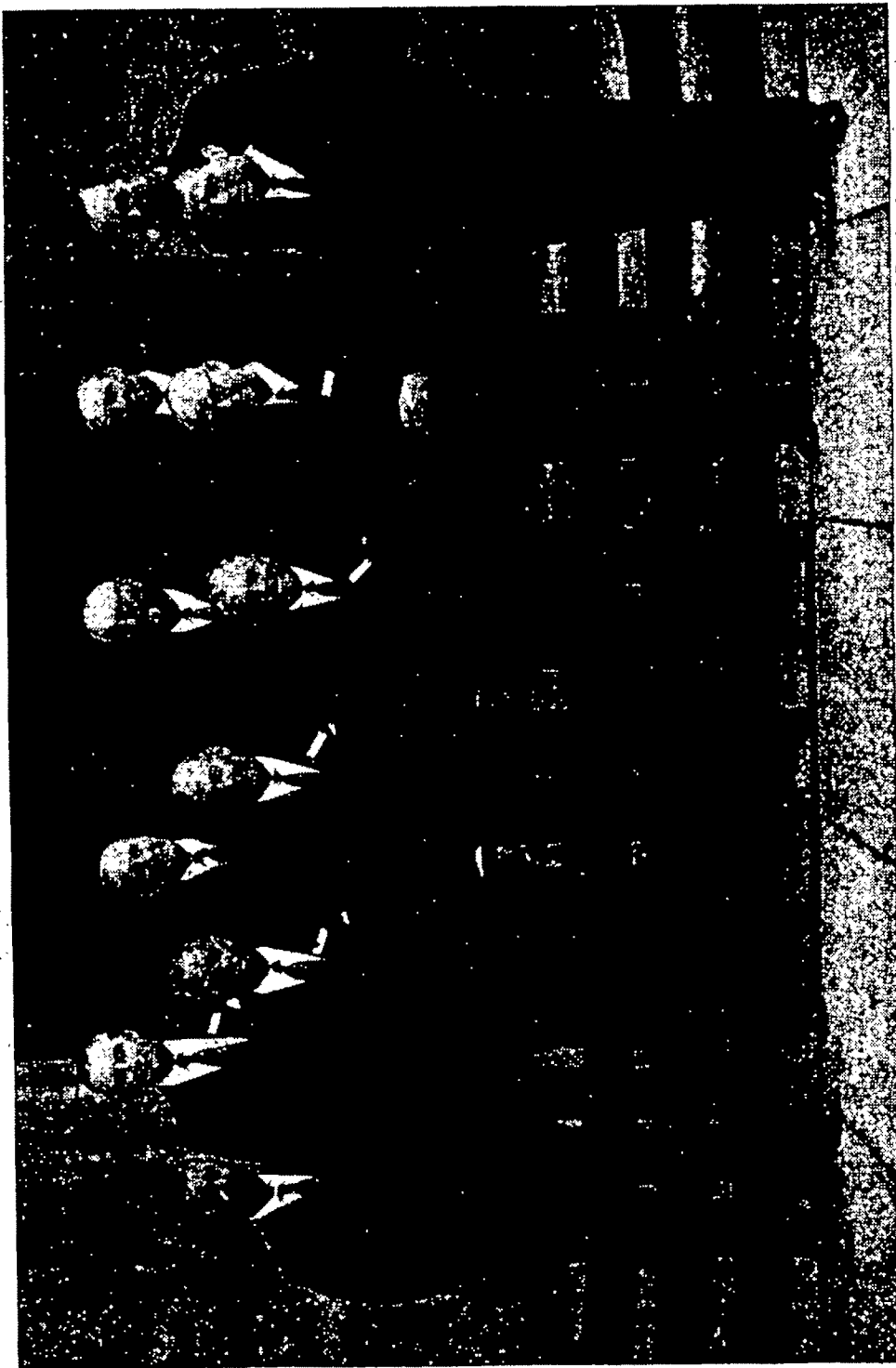
After dinner on Sunday, Mr G. D. H. Dewar, C.A., gave an exceptionally clear summary of the background and implications of a number of recent tax cases. The implications of the case of *Southern Railway of Peru Ltd v. Owen* (35 A.T.C. 147) seemed to be of particular importance and in the discussion that followed some interesting examples were quoted by members of the school, of the attitude of the Inland Revenue with regard to provisions for liabilities under product guarantees.

Accounting in the United States

The second major topic discussed by the school was a paper entitled 'Some aspects of accounting and auditing in the U.S.A.', presented by Mr Andrew Stewart, L.M., M.A., B.L., C.A., C.P.A. An eminent member of the profession in the United States, Mr Stewart has served as a member of the Council of the American Institute of Certified Public Accountants and as President of The New York State Society of Certified Public Accountants. He gave a clear, amusing and authoritative account of the main differences of organization and practise in the United States and the United Kingdom.

The school were particularly interested to hear that much of the credit for the development of the profession in the United States was due to Scottish Chartered Accountants. The main topics discussed were: the

St Andrews, 1957



A photograph taken during the fifth summer school of The Institute of Chartered Accountants of Scotland.

Front row, left to right: Mr D. S. ANDERSON, C.A. (Member of Council and of Summer School Committee); Mr R. IAN MARSHALL, B.COM., C.A. (Vice-President of the Institute); Mr JAMES T. DOWLING, C.A. (President of the Institute), Professor ROBERT BROWNING, M.A., LL.B., C.A. (Member of Summer School Committee); Mr ALEXANDER MCKELLAR, C.A. (Member of Council and Convenor of Summer School Committee); Mr THOMAS R. MOFFATT, C.A. (an Assistant Secretary of the Institute).

Back row, left to right: Mr E. H. V. McDOUGALL (Secretary of the Institute); Mr G. I. STEWART, C.B.E., C.A. (Immediate Past President of the Institute); Mr ANDREW STEWART, L.M., M.A., B.L., C.A., C.P.A. (Speaker); Mr STANLEY N. RAE, M.C., T.D., C.A. (Member of Council and of Summer School Committee); Mr G. D. H. DEWAR, C.A. (Speaker and Member of Summer School Committee).

advantages and disadvantages of the form of audit report recommended by the American Institute as compared with the form laid down in the Companies Act, 1948; the greater accent in the United States on the verification of stocks and debtors; and the desirability or otherwise of a written code of professional conduct and of detailed recommendations by professional bodies with regard to audit procedures. The school noted that under the Federal Securities Act of 1933, the United States public accountant has a most onerous liability for negligence and many wondered whether this might not be part of the reason for what appeared to be the United States accountant's greater readiness to qualify his reports.

Management Accounting

The last major discussion took place last Tuesday, when Mr Ian T. Morrow, C.A., F.C.W.A., A.T.I.I., gave his paper on 'Current problems in management accounting'. His address was lucid and stimulating. He discussed the technique of management accounting and emphasized that the accountant in industry must familiarize himself with all the technical processes

employed by his company, he must acquire knowledge of the markets in which his company sells, and he must study the external conditions likely to affect the business. Only then can he move with confidence in the wider sphere of advising management.

Mr Morrow then referred to specialized cost reports, long-term and short-term budgeting and 'higher control'. He quoted a definition by Mr T. G. Rose, of higher control as being

'a monthly survey of the functional activities of a commercial undertaking, carried out from the business, technical, trading and financial viewpoint, and based upon direct trend comparison between the position at the moment and the position at the last financial year'.

Each summer school must be judged primarily by the quality of the papers contributed and there is no doubt that by this criterion, the 1957 school proved another outstanding success. The organization of the school was particularly good and resulted in a nice balance of learning, recreation and pleasing social occasion. The school finished with an official dinner on Tuesday evening, followed by an almost hilarious impromptu concert.

Notes and Notices

PERSONAL

MESSRS MITCHELL & SMITH, Chartered Accountants, of 163 West George Street, Glasgow, C2, announce that Mr JAMES ARCHIBALD WHITTLE, C.A., who has been a member of their staff for some years, has been assumed as a partner as from July 1st, 1957. The name of the firm will remain unchanged.

MESSRS LUCKIN & SHELDRAKE, Chartered Accountants, of Waterloo Chambers, Chelmsford, announce that they have taken into partnership Mr CHARLES PHIZACKERLEY, A.C.A., who has been associated with them for some time past. The name of the firm will remain unchanged.

PROFESSIONAL NOTES

Mr John Mackie, C.A., has been appointed managing director of Seager, Evans & Co Ltd.

Mr W. T. Gill, C.A., has been appointed chairman of Sentinel (Shrewsbury) Ltd.

Mr Russell L. Tillett, F.C.A., has been appointed chairman of the reconstituted board of Wake & Dean Ltd, and Mr H. C. Hopkins, C.A., has been appointed a director.

Mr James Malcolm Harrison, B.A., F.C.A., has been appointed a vice-chairman of Peglers Ltd.

Mr J. C. Callow, A.C.A., has been appointed chief accountant of Stewarts and Lloyds Ltd as from September 2nd, 1957.

Mr K. D. Morgan, A.C.A., has been appointed commercial director of Hunting Engineering Ltd.

CHARTERED ACCOUNTANT MEMBER OF ADVISORY MISSION TO INDIA

Mr R. F. C. English, A.C.A., of the firm of Deloitte, Plender, Griffiths & Co, Chartered Accountants, of London, has been appointed secretary of the advance party of a mission which is being sent to India in the autumn under the joint auspices of the Colombo Plan and the United Kingdom Shipbuilding Conference.

The mission, which is the result of recent discussions with the Government of India, will advise on the site and layout of a new shipyard and on the equipment required to establish it; it will also provide estimates of the capital costs.

BRITISH FILM FUND AGENCY

The British Film Fund Agency, established on July 1st in accordance with regulations made by the Board of Trade, will distribute to British film makers the proceeds of the levy imposed on exhibitors by the Cinematograph Films Act, 1957. The chairman of the Agency is Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., and the other members are Sir Henry Gregory, K.C.M.G., C.B., and Mr K. D. Cole.

The Agency propose to appoint, subject to suitable arrangements being made, Messrs J. H. Champness, Corderoy, Beesly & Co, Chartered Accountants, of London, to act in respect of the distribution of the Fund in accordance with the Cinematograph Films (Distribution of Levy) Regulations, 1957, and under

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the direction of the Agency. Mr John F. Warren, F.C.A., a partner in the firm, has been invited to become secretary of the Agency; communications should be addressed to the secretary at 9 Cavendish Square, London, W1.

IN PARLIAMENT

NON-VOTING ORDINARY SHARES

Mr H. WILSON asked the President of the Board of Trade if he will appoint a committee to inquire into the growing practice of issuing non-voting ordinary shares.

Mr ERROLL: No. Naturally my right hon. friend is watching the position, but he does not think that there is a case for the Government to appoint a committee.

Hansard, July 2nd, 1957. Written Answers. Col. 100.

UNITED KINGDOM RESIDENTS: FOREIGN CURRENCY SECURITIES

Mr ARBUTHNOT asked the Chancellor of the Exchequer what is the policy of Her Majesty's Government in relation to the acquisition of foreign currency securities by United Kingdom residents.

Mr P. THORNEYCROFT: United Kingdom residents are free to acquire foreign currency securities already in the possession of other United Kingdom residents and Her Majesty's Government do not propose to alter that situation. Hitherto, however, they have also been able to acquire legally foreign currency securities from residents in other parts of the sterling area and this has led to transactions in such securities by residents of those parts of the sterling area where free markets exist.

While any additions to private holdings of foreign currency securities in the United Kingdom increase our current overseas income, the capital cost of these purchases falls immediately on the reserves and I am not willing to let this continue. I have therefore decided to control the acquisition of foreign currency securities by United Kingdom residents. Directions to this effect were laid before the House yesterday evening and came into force at midnight last night.

Hansard, July 5th, 1957. Written Answers. Col. 149.

OFFICIAL RECEIVER APPOINTMENT

The Board of Trade have announced that as from July 8th, 1957, Mr James Tye has been appointed the official receiver for the bankruptcy district of the County Courts of Ashton-under-Lyne and Stalybridge; Blackburn; Blackpool; Bolton; Burnley; Oldham; Preston; Rochdale and Stockport.

EAST AFRICAN TAX INQUIRY

In the leading article last week on the East African Tax Inquiry, we regret that the name of the chairman of the Commission was misprinted. The name should have read Sir Eric Coates, C.S.I., C.I.E.

PREMIUM BONDS: ESTATE DUTY CONCESSION

The Board of Inland Revenue have ordered that premium savings bonds owned by persons who die domiciled in the Channel Islands, the Isle of Man or Northern Ireland are not to be treated, for the purposes of liability to estate duty, as property situate in Great Britain.

RELIEF FROM DOUBLE ESTATE DUTY: PAKISTAN

The agreement with Pakistan relating to relief from double estate duty, which was signed on June 8th, was published on July 1st as a Schedule to a draft Order in Council.

INSTITUTE OF ACTUARIES

The results of the May 1957 examinations of the Institute of Actuaries held in eight centres throughout the United Kingdom and Eire show that thirty-one candidates have qualified as Associates and that twenty-seven have qualified as Fellows.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 15TH, 1882

Letter to the Editor entitled

INSTITUTE EXAMINATIONS

SIR, - To the list of Subjects for the above Examinations issued by the Council of the Institute a footnote is appended containing a list of books recommended to Students. If we are to judge from the books given, the students will have a very great deal of work to do. I have just looked at some of the books, and find the following are in round numbers the number of pages in each: Lindley, 1,500; Smith, 790; Russell, 860; Williams, 1,900.

I have no objection to Ringwood, as I consider it the most suitable one chosen. I consider the following would be a far more suitable selection, especially as Chartered Accountants are not required to be skilful lawyers; and from the list given they will be able to obtain a very good knowledge of the principles of the various branches of the law required. "Pollock's Digest of the Law of Partnership," "Eustace Smith's Summary of Company Law," "Redman's Law of Arbitration and Awards," "Walker's Compendium of the Law relating to Executors and Administrators," "Ringwood's Bankruptcy," and a suitable work on Mercantile Law.

I shall be glad to have the opinion of some of your readers, and also to know whether the Council will expect students to read the books they have recommended.

I must apologise for the length of my letter; but the subject is one of very great importance to articulated clerks of Chartered Accountants.

Yours, &c.

July 1, 1882.

ARTICLED CLERK.

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LOCAL GOVERNMENT FINANCE

THE three-quarter exemption from rating which has been enjoyed by industry ever since 1929 is to be cut down, as from April 1959, to a half. The decision to reduce it was taken last February, when the timing was left for discussion with interested bodies.¹ The result of these discussions now appears in a White Paper, *Local Government Finance (England and Wales)* (Cmd. 209) which gives additional information about the proposed changes in rating.

Along with the partial rerating of industry, corresponding alterations will be made as regards industrial properties occupied by the Crown. The payments made by the nationalized gas, electricity and transport industries will all be included in the rating system. Electricity properties will be rated on lines similar to those operating for gas, and there will be weightings for generation and distribution in accordance with an elaborate scheme set out in the White Paper. The parts of electricity and gas showrooms which are used as shops will be separately assessed to rates. Moreover, the transport payments distributed by the Ministry of Housing and Local Government will be made to the rating authorities and treated in all respects as rates. One of the thorny subjects of rating is the question of plant and machinery. The White Paper says that changes in industrial practice in the last thirty years have rendered obsolete the Plant and Machinery (Valuation for Rating) Order, 1927, and a committee is being invited to prepare a revised order.

Thus, as was foreshadowed last April, the Government have decided not only to retain rating as the system for raising money by local authorities, but also to strengthen and extend it. With the new emphasis on this type of tax, the suggestion is made that local authorities should give greater facilities for payment by instalments and should publicize these facilities more. Side by side with the increased independence which local authorities will have in the raising and spending of money, the Government hopes that they will explain their policies to ratepayers more fully than ever and ensure that the financial effects are understood. It is pointed out that very many people pay their rates in the form of rent and do not see rate demand notes. These persons, too, should be reached by local authority publicity.

Complete financial independence of local authorities is not, of course, envisaged. The Government must still remain responsible for laying down national policy and for ensuring compliance with

¹ See *The Accountant*, February 23rd, 1957.

basic standards in the several services which are aided by grants from the Government. However, the maximum local discretion will be allowed in the method of providing a service and the reward of efficiency will accrue wholly to the benefit of the local population. A number of specific grants for particular services (of which the most important is education), which at present are largely based on a percentage of the expenditure of an individual local authority on the service, are to be absorbed into a general grant. This general grant will be distributed among local authorities by reference to objective factors (mainly of 'weighted' population) which are readily ascertainable and afford a fair measure of the relative needs of each authority. It will be recalled that this method of arriving at Exchequer grants was suggested in a report published in February 1956 on behalf of the treasurers of twenty-eight county borough councils who were not receiving the Exchequer Equalization Grant, and upon which a note appeared in a previous issue.¹

The new general grant will be fixed in advance for a short period of years; in the first instance two years. The total of the grant for each year of a period, with the relative weightings which govern distribution, will be decided by the Government after discussions with the associations of local authorities and announced by White Paper. The figure will then be embodied in an Order (made under the legislation to be enacted) determining the statutory amount which the Government may ask Parliament to vote in the ordinary way. The grants for the first period (i.e. the two years commencing April 1959) will be decided in the late autumn or winter of 1958.

As regards equalization grants paid to local authorities whose rate resources are below the average, certain changes are proposed in their calculation and distribution. Part of the grants (renamed rate deficiency grants) will be paid direct to county district councils, instead of being paid only to county and county borough councils, and the capitation payments by these latter authorities will be abolished. As weightings for children, schoolchildren, old people and the like will be taken into account in the general grant, they will be unnecessary for the rate deficiency grant, where the only weighting will be for

sparsity of population in counties. The grants will be based on rate product, rather than rateable value. The operation of Section 8 of the Rating and Valuation (Miscellaneous Provisions) Act, 1955, in respect of rate allowances for charities, has shown the marked degree to which rateable value in some areas may be an unreliable index of the rate income. The highway grant system will remain undisturbed for the time being.

The total of Exchequer grants to local authorities in post-war years has overtaken the total of rates. Indirect taxes have grown in yield fivefold, net incomes have trebled, but rates have only doubled. The partial rerating of industrial and freight transport properties will produce an estimated additional £30 million in rates, of which about half will be at the expense of the Inland Revenue, through reductions of income tax, surtax and profits tax. The White Paper does not mention that there will be a time-lag between the payment of the additional rates and the reduction in income taxation.

As the Exchequer will ultimately be losing £15 million in direct taxation, the grants will be reduced in total. Some of the very minor grants (including an aggregate of £10,000 a year for 'portable wheel weighers') will be abolished, thus saving the Exchequer £1½ million. The rate deficiency grants will go down by £11¼ million and the general grant by £6¾ million, leaving an omnibus gain to local authorities of £10 million out of the additional £30 million rates. Individual authorities may gain nothing, indeed, they may lose, and there is to be a transitional scheme for softening the blow in their case.

The Government's adherence to rating as an ideal scheme of local taxation will cause a good deal of disappointment. Measuring a man's ability to contribute to local expenditure by looking at the size of his house or shop has little more than its long history to commend it. Assuming that it is the correct basis to proceed on, one wonders what is the present justification for the still considerable derating of industry. There seems to be a lack of consistency.

As far as the raising of finance is concerned, the White Paper looks backward rather than forward. On the other hand, the measures taken to encourage economy and penalize extravagance are very welcome, as is the change in weightings for the purpose of calculating Exchequer grants.

¹ *The Accountant*, March 3rd, 1956, at page 242.

THE FINANCE BILL – X

OVERSEAS TRADE CORPORATIONS

Restricted Abatement

FOR ordinary companies there are abatement provisions (Finance Act, 1947, Section 33) the effect of which is to exempt companies whose total profit (with franked investment income, if any) does not exceed £2,000, and to allow a sliding scale reduction where it exceeds £2,000, but is less than £12,000. Trading income being now excluded in the case of an O.T.C., it was evidently thought to be overgenerous to allow abatement on the old terms. Paragraph 3 of the Seventh Schedule to the Bill substitutes two new provisions for abatement, the one giving the higher abatement in a particular case to prevail.

The first alternative applies the existing abatement provisions but with the substitution of £500 for £2,000 and of £3,000 for £12,000. Thus, if the profit (including any franked investment income) does not exceed £500, it is to be treated as nil. If there is no franked investment income and the profit is between £500 and £3,000 the abatement consists of a deduction of one-fifth of the amount by which the profit falls short of £3,000. Where there is franked investment income and this, plus the remaining profit, falls between £500 and £3,000, then again one-fifth of the difference between this and £3,000 is taken but this one-fifth is further reduced by taking the proportion of it which the profit without franked investment income bears to the profit including franked investment income.

The second alternative retains the normal £2,000 and £12,000 limits but provides that exempt trading income is to be treated for the purpose of the abatement calculation as though it were also franked investment income.

Gross Relevant Distributions

The real sting of profits tax is the heavy rate payable on that part of the profit which is treated as distributed to the shareholders. In this sphere the new rules for O.T.C.s are distinctly generous. For the ordinary company, all distributions are treated as though they were made out of chargeable profit, even though in fact they may represent some windfall like a capital profit. For the O.T.C., however, any distribution which under the new

legislation is to be deemed (for the purpose of being charged with income tax) to have been paid out of exempt trading income is to be excluded from the computation of gross relevant distributions to proprietors (paragraph 4).

Similarly, where the device of bonus issue-repayment of capital has been treated as a distribution of exempt trading income for the purpose of charging income tax¹, the device is not to be treated as increasing the gross relevant distributions for profits tax purposes, notwithstanding the provisions of Section 31 of the Finance Act, 1951.

There is a consequential amendment to Section 29 (2) of the Finance Act, 1951. This subsection provides for the charging of profits tax on dividends received from certain statutory undertakers. Paragraph 11 of the Seventh Schedule to the Bill directs that the subsection shall not apply to dividends out of exempt trading income. However, it is difficult to imagine a statutory undertaker which qualifies as an O.T.C.

O.T.C. Dividends not Franked Investment Income

Since the liability of an O.T.C. to profits tax will be so much cut down as to be non-existent in most cases, it would obviously be illogical to treat dividends from O.T.C.s as franked investment income in the hands of the recipients. Clause 28 (2) (formerly clause 26 (2)) provides that so much of an O.T.C. dividend as is to be regarded (under the Fifth Schedule) as paid out of exempt trading income shall not constitute franked investment income either in the hands of the person receiving it directly or in the hands of any other person receiving it indirectly by way of dividend from an intermediate company.

Profits Tax Groups

The consequential amendments of the profits tax law relating to groups of companies, in so far as it concerns O.T.C.s, is contained in paragraph 9 of the Seventh Schedule, which was much amended in Committee.

¹ See *The Accountant*, June, 15th, 1957, at page 731.

Originally, where a group comprised both O.T.C.s and non-O.T.C.s, the option to aggregate group profits was not to apply at all. However, there seems to be no objection to aggregating, say, the investment income of an O.T.C. subsidiary with the whole income of a non-O.T.C. principal and vice versa. Accordingly, paragraph 9 (1) as amended now provides for this limited type of aggregation in a mixed group.

It will be recalled that the second of the two alternative computations of abatement (paragraph 3 (3)) involves the treatment of income as though it were franked investment income. Where the computation is being made for an O.T.C. which is the principal of an aggregation group, then the trading income of all the O.T.C. subsidiaries (if any) must also be brought into the abatement computation as though it were franked investment income of the principal (paragraph 9 (2)).

If the principal of an aggregation group becomes an O.T.C., it has an option to revoke the aggregation notices for all the subsidiaries. If a subsidiary becomes an O.T.C., the principal has a similar option to revoke the aggregation notice in relation to that subsidiary. The option is exercised by notice in writing to the Inland Revenue within six months after the end of the chargeable accounting period commencing with the date when the company in question became an O.T.C. — with extensions at the discretion of the Inland Revenue. A valid notice will have retrospective effect from that date (paragraph 9 (3) (4)).

It will be recalled that an O.T.C. will pay profits tax on its investment income and that annual payments will be deductible in arriving at the net income. In the ordinary way, interest, annual payments, royalties and rents paid by the O.T.C. to a fellow member of a group would be disallowed (Finance Act, 1938, Section 42 (5)) unless the recipients were resident in the United Kingdom and both parties and the principal company elected that the subsection was not to apply. Paragraph 10 of the Seventh Schedule abrogates the subsection, without the necessity for any election.

Paragraph 12, which is not confined to groups, lays down the formula for apportioning profits and distributions where there is a change of status

to or from an O.T.C. It may be remarked here that amendments have been made on the general question of changes of status, which will be dealt with later.

Double Tax Relief

As long as trading income remains effectively exempt from United Kingdom tax under the new dispensation, the question of allowing relief for foreign tax paid on it will not arise. When the exemption is lost, either by some distribution being made or because the company loses its O.T.C. status, and Case VI assessments are raised, relief can be claimed for foreign tax against that liability and will follow the lines laid down in Part XIII of the Income Tax Act, 1952. For this purpose it is to be assumed that income tax (at the rate in force for the year for which the Case VI assessment is made) has been charged on the exempt trading income concerned (clause 27 (1)).

Where the exempt trading income concerned includes any part of a dividend 'or other payment' from another O.T.C., the computation must take into account any foreign tax borne by the paying O.T.C. in respect of exempt trading income which is deemed to have been applied in paying the dividend or other payment (clause 27 (2)).

One can imagine the complications which will arise in practice from these provisions. The draftsman takes refuge from further elaboration by providing that the Inland Revenue may lay down rules for ascertaining the amount of relief (clause 27 (3)). If an O.T.C. pays a dividend and as a result is charged to income tax under Case VI and receives double tax relief against that assessment, the recipient of the dividend is not to have any relief for the tax deducted at a rate higher than the O.T.C.'s net effective rate, notwithstanding that tax is deducted from the dividend at the full standard rate. There is a similar provision for the case where a grant or loan is treated as a distribution and is deemed to constitute income in the hands of the recipient under paragraph 1 of the Sixth Schedule. This restriction corresponds to Section 350 (1) (a) of the Income Tax Act, 1952. As in cases under that section, where an annual payment is paid out of the dividend, grant or loan, there will be Section 170 liability on the annual payment — this in order to recover the difference between the standard rate and the effective rate.

(To be continued.)

EDUCATION AND TRAINING FOR THE ACCOUNTANCY PROFESSION

by H. O. H. COULSON, F.C.A.

FOR some time past, and more particularly in connection with the proposals for the integration of the Society of Incorporated Accountants with the Institutes of Chartered Accountants, discussion has been taking place concerning methods of education and training for the accountancy profession. At such a time it is thought that there might be some merit in recording views which may, perhaps, not meet with universal acceptance, upon what is required in education for the profession of accountancy.

General Education

The accountant, in whatever walk of life he may enter after qualification, is called upon to deal first and foremost with people. If he is to play an effective part, whether in the profession or in industry, it is essential that he should have a ready appreciation of the reactions of other people and be able to find as wide points of contact as possible with them. It is important, therefore, that his outlook is widened by his general education rather than narrowed by an education of a more technical nature.

Even if the study of subjects germane to accountancy were otherwise desirable as part of general education, it would be likely to have the effect of confining the student to the technicalities of his subject and so diminishing the common ground he might find in dealing with other people.

It is therefore submitted that at school and, if applicable, at university, the student should have as wide and general an education as possible.

Professional Education

Accountancy is an art which is best learned in practical pursuit and operation – in brief, ‘on the job’. The reduction of accounting operations to a scale which brings them within the capacity of a classroom is far from easy and it is almost unavoidable, in so reducing them, that they will be so over-simplified that the classroom study can be of little practical value.

The difference between the test tube in the laboratory and the operation of a scientific process on the factory floor is something which is well known and appreciated. The gap between the study of accountancy on a classroom level and its pursuit in practice is at least as great as that

between the laboratory and the factory. It follows, therefore, that whatever the merits or demerits of classroom, or ‘formal’, studies as an adjunct to training, the essential part of education in accountancy can only be in the practical application of its principles and techniques.

It must be noted, however, that training must not aim merely at the production of the most efficient and knowledgeable accountant. So far as possible it must inculcate the essentially professional approach – as Lord Simon said long ago:

‘the work that we do must be rendered to our clients without stint in proportion to our clients’ need, rather than in proportion to the reward which we receive’.

In making this comment Lord Simon was no doubt thinking not only of the quantity of work involved but also of its quality. It is essentially the distinction of a professional approach that consideration is given first to what is, in the view of the adviser, for the client’s real advantage, both long and short term. Consideration of the interests of the professional adviser comes last if, indeed, it comes to the surface at all until, perhaps, the awkward moment when he has to settle his fee.

Articles of Clerkship

It is inevitable, at a time when the possible absorption is under review of those who in the past have been bye-law candidates for the examinations of the Society into the framework of the Institutes’ schemes of education, that the question will be raised that there can be little or no merit in articles of clerkship as such. It will be pointed out that, so far as concerned the bye-law candidates and so far as concerns accountancy students in many other parts of the world, it is possible for them merely to be registered as students with the appropriate body and to serve an essential period in the appropriate kind of office, with no need for any formal contract of service. It will be contended that articles of clerkship do not ensure that the clerk is given adequate training and experience and, further, that, generally speaking, he is bound by contract on terms which can be expensive to him or to his parents, as the case may be. It will be pointed out that although the day is past, or at least passing, when a premium might be charged for articles,

the salaries paid to articled clerks are at such a low level that there is, in effect, a very real premium. There will not be lacking those who will say that, by reference perhaps to their own service under articles, they devoted, in fact, a very short period of time to actual work in the office and that their experience was such that they were satisfied that they were no better for having done so. Underlying many of these complaints is the suggestion that articles, as such, do not involve any 'formal' education and that it is the exception far more than the rule for a principal to give any direct tuition to his articled clerk.

It is perhaps salutary to look at the form of articles which the Institute prescribes and, in particular, at the covenants undertaken by the principal. The only one which, it is submitted, bears upon this point is the second, which reads as follows:

"That to the best of his ability and power he (the principal) will either personally or through his partner or partners or his senior assistants engage the articled clerk on such work and afford him such opportunities and experience as are necessary for the purpose of enabling the articled clerk to acquire the art and knowledge of a chartered accountant in practice as a public accountant."

It will be observed that there is no reference in this covenant to the giving of any kind of 'formal' education or tuition but rather the opportunity and experience to enable the clerk to learn what he has to do to be a chartered accountant. In so far as it may therefore be suggested by individuals that their service has been of little value to them, it may be that, although the opportunities have been there, they have not taken advantage of them.

Practical Experience

It is also alleged that some offices do not provide suitable experience for articled clerks, but it is difficult to draw a very clear distinction between what is good, and what is bad, experience. The office which has a very large organization and perhaps a clientele of big concerns may require a good deal of work to be carried out of a routine checking nature. To the articled clerk this work may appear to be the veriest drudgery and of little value. On the other hand, it is as well to reach the frame of mind which regards a heavy volume of work as something to be overcome rather than as something about which to complain. The performance of such routine work undoubtedly gives the clerk a quick appreciation of figures and what they mean. Having spent perhaps long periods in the mere addition

or calling over of figures, he will reach the point at which he does not need to look twice at a figure to know what it is or what it means – that alone is something which will stand him in good stead for the rest of his business career.

It was recently observed in relation to the training of entrants to the finance services of local government that if, by the use of machines, drudgery were entirely eliminated, routine work would have to be invented to provide an essential element in the training of new entrants.

It is sometimes suggested that service in a small office is inferior to that in a large practice. The small office with a number of cases with records varying from the rudimentary and incomplete to the orthodox, undoubtedly provides the articled clerk with excellent opportunities of learning the elements of book-keeping and accountancy. It is probable that, in such an office, the finer points of audit will less frequently require to be considered, but the essentials of accounting and a grounding in the taxation of the ordinary small business, are more easily obtained. On the other hand, in the bigger office, there is plenty of work to be done upon the books of clients whose records are kept upon more orthodox lines, but there is not the same opportunity for learning the practice of book-keeping although more for learning what is meant by an audit.

In larger offices it is less likely that the articled clerk will be entrusted, at an early stage, with any very responsible work but will usually be working upon sections of large cases. Obviously an ideal situation would be one in which experience could be mixed, for example, in a large office for a short opening period, then a small office perhaps for a year or two and then a reversion to a larger office.

Classroom Education

As regards 'formal' education there are principals who do, in fact, arrange for their articled clerks to receive some measure of education in the theory of accounting subjects. Even more take steps to keep themselves in close touch with the progress, or lack of it, of their articled clerks in, for example, their correspondence courses.

It is perhaps not unfashionable slightly to decry correspondence courses by comparison with whole-time study in some academic establishment. The discipline of retiring to a desk night after night and studying dull and wearisome books – when perhaps he would rather be out in the fields – is nevertheless a salutary one for the clerk. It enables the schoolboy to move from the

sphere in which his every action was supervised to that in which his only taskmaster is himself; when, instead of working for the short-term objective of keeping out of trouble with his masters, he is working for a longer-term objective of success in an examination which, certainly in the early stages, will seem remote. Against this background, the correspondence course has a good deal to commend it and, indeed, it provides one of the only ways in which students whose homes are scattered over a wide area may study the theory which complements their practical experience and reduces it to the classroom level which will prevail in the examination room.

Whilst, therefore, the absence of provision by a principal of 'formal' or 'classroom' education for the clerk is not, it is submitted, a valid ground of complaint, it cannot be gainsaid that the principal has undertaken very real obligations. The articled clerk has better status in asking for consideration of his needs than if he had no contract of service at all. On the other hand the principal, whilst doing his best, may be unable, by reason of the limitations of his practice, to offer all the experience which might be desirable. To prescribe, accordingly, that he should not take articled clerks, whilst presenting real difficulty in discriminating between one office and another, ignores the fact that most offices have something to offer, even if they all – or almost all – have some limitations or deficiencies.

Transferability of Articles

The foregoing reflections lead inevitably to the suggestion that there would be merit, if it were possible, in arranging for an articled clerk to spend, say, one-half of his period of articled service in a smaller office and thereafter to be transferred to a larger office where he could obtain experience upon the wider level there available.

It is undoubtedly possible in certain firms for articled clerks to take a part of their service in a country office and after two, three or four years to come to a head office in a larger town where they can pick up the threads of larger scale work. Such arrangements are, however, by no means common and regard must be had to the requirement that the articled clerk must serve in the office of the principal to whom he is articled. On the other hand, the merits of such an arrangement are considerable and would seem to suggest that it would be well to explore the possibility of links between smaller and larger offices so that a common policy for dealing with articled clerks could be arranged between them and the transfer

of articles from one to the other made a regular, rather than a purely fortuitous, feature.

It is possible to visualize many difficulties which would arise as, undoubtedly, the firm which undertook the first part of the training would feel that it was parting with its clerks at just the point when they became useful and, probably, losing any ultimate chance of recruiting them to its own qualified staff. On the other hand, such offices could not but recognize that individuals trained solely in their offices, without experience elsewhere or of larger work, might very well not be so well qualified in the long run, and the possibility of such transfers might attract candidates for articles to them to a greater extent than before.

Conclusion

The subject under discussion is a large one and of great importance. It is inevitable that varying views will be held and that some, if not all, of the views expressed and suggestions advanced above will be regarded as impracticable and untenable. The desiderata may be summarized as follows:

- (a) General education should be upon the broadest possible basis.
- (b) Primary training in the art and knowledge of an accountant should be undertaken in a professional office, preferably under articles of clerkship.
- (c) Practical training and experience should be so arranged that the articled clerk receives some grounding in the elements of book-keeping and some chance of seeing small businesses, their accounts and how they are operated, their profits and how they are earned, their expenses and how those expenses react upon their profits; coupled with, at some stage, experience in larger scale work where the refinements and implications of audit are more fully understood and observed.
- (d) Formal or classroom training in accountancy subjects, whilst of interest and value, especially from the standpoint of examination needs, is not essential, and if undertaken, should not be regarded as effectively replacing an equivalent period of practical work.

Lastly, and to sum up, there is no doubt that the individual who is determined to apply himself and learn his job is the one who will, in the long run, make a good accountant. The individual who is given to complaining that nobody is doing anything to teach him what he needs to know is, possibly, failing to do anything to learn for himself.

THE MEASUREMENT OF PROFIT

by R. H. PARKER, B.Sc.(Econ.).

WHAT is profit? Economists reply that this problem forms part of the wider theory of distribution and that profit is the reward of an entrepreneur for bearing uninsurable risks. This statement is subject to qualifications regarding 'pure' profit and monopoly rent but it is sufficient for our present purpose. Few accountants and business men would disagree with such a definition, although some might doubt its practical usefulness. It tells us what profit is but not how to measure it.

Two Methods of Measurement

There are two principal ways of measuring profit:

- (1) by comparing the 'net worth' of a business at the beginning of a period with its 'net worth' at the end of that period;
- (2) by calculating the excess (or deficiency) of revenue receipts applicable to a period over the revenue expenditure applicable to that period.

The distinction between one definition of profit and two ways of measuring profit is not just a mere form of words. It is a distinction of vital importance and the failure to make it has led to much confusion. The two methods of measuring will often give different results. There is no need to worry unduly about this – it does not affect our definition of what profit is. It only means that it is very hard to measure it. Except in the simplest cases, and there are extremely few of these in practice, we can never say that the profit of a period is, say, £1,000 and nothing else. There must always be estimation and sometimes even guesswork.

Profit is necessarily measured in terms of money. When prices are not stable adjustments will be necessary. For the sake of clarity, however, we shall assume in the first part of this article that the value of money is constant.

It is unfortunate that accountants, in principle and even more so in practice, have never really decided the way in which to measure profit. They are, as Mr Harry Norris has pointed out¹, uncertain whether profit is 'a surplus of revenue over cost or is accretion in value'. The item 'net profit' shown in most final accounts is the balancing figure left after applying con-

ventions which have little consistent theory behind them.

The 'net worth' concept of profit received judicial support in *The Spanish Prospecting Co Ltd* ([1911] 1 Ch. 92). Fletcher Moulton, L.J., said:

'We start, therefore, with this fundamental definition of "profits", viz. if the total assets at the two dates be compared, the increase which they show at the later date as compared with the earlier date (due allowance, of course, being made for any capital introduced into or taken out of the business in the meanwhile) represents in strictness the profits of the business during the period in question.'

The learned judge went on to say, however, that

'To follow out the strict consequences of the legal conception in making out the accounts of the year would often be very difficult in practice.'

Net Worth

What is the net worth of a business? If the business is about to close down the calculation is fairly simple. Each asset will be 'worth' its net realizable value and the sum of these values, less the liabilities, gives us the net worth of the business as a whole.

But what if the business is a 'going concern'? Break-up values become irrelevant, and the 'worth' of an asset may have nothing to do with its historical cost. We cannot merely add together the 'value', however calculated, of each individual asset. The business must be considered as a whole. Logically, the net worth of a business must be the discounted value of future cash receipts less payments (allowing for introductions and withdrawals of cash by the proprietors).² Few accountants would care, or even dare, to measure profit in such a manner.

For practical accounting purposes, therefore, we must abandon the net worth method, useful though it may be as a tool of economic analysis.

The second method of measuring profit poses one very important question: How do we distinguish between revenue receipts and expenditure and capital receipts and expenditure? In the long run, all receipts and expenditure must be revenue, for in the limiting case of a 'closed'

¹ *Accounting Theory* (1946), page 10 (Sir Isaac Pitman & Sons Ltd, London).

² Cf. R. S. Edwards: 'The nature and measurement of income' (*The Accountant*, July–October 1938. Reprinted in *Studies in Accounting* (1950), edited W. T. Baxter, B.Com., C.A. (Sweet & Maxwell Ltd, London)).

venture, profit is merely the excess of cash received over cash paid out. When Pacioli wrote the first published book on double-entry book-keeping in 1494, most commercial 'adventures' were in fact of this kind. Today, however, we cannot wait until a business closes down before attempting a calculation of profit. The directors and shareholders will wish to know the 'profit for the year', and the accountant must willy-nilly produce a figure which purports to be such.

The distinction between capital and revenue must be on the basis of time. When we show in a balance sheet:

			£
Plant at cost	..	..	1,000
Less Depreciation	..	..	100
			£900

what we mean (assuming the use of the straight-line method of depreciation and no scrap value) is that we have incurred expenditure of £1,000 on plant, but since we expect that plant to help to bring in cash receipts over a period of ten years, we are carrying forward £900 of the expenditure. In other words, 'capital' expenditure is unexpired revenue expenditure carried forward to be set off against future revenue receipts.

For most purposes, the straight-line method of depreciation fits in best with this idea of capital expenditure. It does, however, assume that the expenditure of £100 this year for *this* year is the same as the expenditure of £100 this year for *next* year. What is usually known as the 'annuity method' takes this factor into account and, ideally, is to be preferred. But since current rates of interest can change rapidly, frequent adjustments may be necessary.

Stock Valuation

Stock on hand is expenditure on purchases carried forward. The asset figure is the excess cost incurred over that required to produce the bare minimum of goods so as to leave no stocks on hand at the date of the balance sheet. The 'first-in-first-out' method of valuing stock seems, therefore, to be the most appropriate one.¹

Should we allow market prices to affect the figures in the final accounts? Orthodox accounting opinion, at least in this country, says 'No' as far as fixed assets are concerned but, rather illogically, brings in stock at the lower of cost or market value. It is true that if the net realizable value

of the stock is below cost it may be advisable, *as a matter of financial policy*, to make provision for the difference, but considerations of policy ought to be kept carefully distinct from basic principles.

If the replacement value of the stock is lower than cost this merely means

'that the expected profit is less than it might have been had it been possible to acquire (the goods) at the accounting date . . . the circumstance has not caused a trading loss but only indicates that the ultimate results under other conditions might have been better.'²

Many suggestions have been put forward since the war for dealing in accounts with the effect of changes in the value of money. The most logical method appears to be that of Mr B. J. Davis.³

Most balance sheets, Mr Davis points out, contain figures in what are really several different currencies; 1939 sterling and 1957 sterling are different currencies, just as U.S. and Canadian dollars are different currencies. The figures should, therefore, be adjusted by means of suitable index numbers so that all appear in terms of current sterling. Any difference arising is a 'profit or loss on exchange' as in foreign branch accounts. In the actual books themselves 'Currency control accounts' can be kept, through which the necessary adjustments can be passed.

One objection can be raised. Do suitable index numbers exist? Given the will, there is no reason why this objection should remain insuperable. The system has the merit of showing what profits are due merely to changes in the price-level, and whether the business has gained or lost from holding money rather than goods or plant. It achieves all this without departing from the historical cost basis of accounting which has come so much under attack from most economists and some accountants.

The trouble with present practice is not the use of such a basis but the fact that it is not applied consistently. Lack of proper theoretical background has meant, firstly, that considerations of financial policy, expediency and conservatism have been elevated into so-called 'principles' and secondly, that a somewhat confused idea has lingered that balance sheets ought to show 'values' - nobody being quite sure what is meant by 'value'. The science of accounting still awaits its 'General Theory'.

¹ The Institute of Chartered Accountants in England and Wales: Recommendations on Accounting Principles, No. X, June 15th, 1945.

² *Inflation. Its Treatment in Accounts* (1953), (Gee & Co (Publishers) Ltd, London).

³ Cf. Harry Norris: 'Commodity stocks: a note' (*Economica*, August 1944).

SURTAX ON CONTROLLED COMPANIES

by F. N. BUCHER

THE subject upon which I have to speak to you stems from the device used by the Government to break down the legal personality of the company and to break it down so as to get into the ribs of shareholders of certain companies for surtax purposes. If I may say so at once, I propose, at any rate in the first place, to confine what I am going to say to trading companies and not to investment companies, which have been the subject of successive and often very venomous attacks by the Legislature.

The general attack began, I suppose, after the First World War, in the boom era of 1922. When I was looking at the diary of one of the most senior practitioners at the Bar for those years between 1922 and 1929 or so, I saw that he would have two appeals a day, under what was then Section 21, before the Special Commissioners, who sat then in York House in Kingsway. Later, the slump from 1929 and onwards to 1936, took away a certain amount of the appetite from those who administered Section 21. Besides, new social developments arose in about 1937, leading to the imposition of the national defence contribution and, of course, from 1939 to 1946 the operation of the earlier penal legislation was really not necessary because the Exchequer was able to skim off the cream in the way of excess profits tax.

Then, after the war, after 1946, with the national policy of dividend limitation, it obviously struck the Board of Inland Revenue as somewhat unrealistic for the Chancellor to insist, on the one hand, on the limitation of dividends, and for the Board of Inland Revenue to insist, on the other, on bigger and better distributions. That, of course, led to two statements, the second of which was made by Sir Stafford Cripps in 1947 or 1948 in which he said that a company which maintained the same rate of dividend, or continued to pay no dividend, could regard itself as sheltered by what has become known to us so well as the Chancellor of the Exchequer's umbrella. And then, of course, he said, "This is not meant to apply to cases where money is withdrawn in the guise of capital".

Research by the Inland Revenue

It is that situation which, I think you will agree with me, has led to increased activity on the part of the branch of the Inland Revenue which has to administer this legislation, because their constant search seems to be to examine trading companies' accounts to see whether there has been anything which they regard as withdrawing money in the guise of capital for the benefit of directors or shareholders. That, of course,

can take a variety of forms, the most common form being a loan to a director. There are other forms. Money may be taken out of the company and used to finance other companies: not subsidiaries, but companies in which the shareholders are common between the two companies. That has been regarded by the executive Special Commissioners as depriving the company of the Chancellor of the Exchequer's umbrella. Sales at an over-valuation are another example. If one of the shareholders sells something to the company and receives more than its real worth from the company, that would, curiously enough, be within the administrative formula of withdrawing money in the guise of capital.

These, I think, are the kind of matters which have set the executive Special Commissioners in motion in recent years. There must be a good many of these cases. The particular department which deals with that side of the Special Commissioners' functions is steadily increasing. Of course, from the point of view of the professional adviser, very often these skeletons emerge from the cupboard when one is dealing with reorganization of a company, about which I hope to say a little bit more of a technical nature later on. Reorganization of family businesses nowadays stem primarily from the endeavour to avoid the full impact of estate duty on the family holdings which may well lead to a break-up of the company itself. It is very often coupled with a gift of shares by one of the major shareholders in settlement for members of his family or unborn children.

Companies Covered by the Legislation

Now the first technical question which this problem raises, I suppose, is: "What is the test of the companies which come within the scope of the legislation?"

Everyone knows that, by and large, it means a company which five or fewer people can control, and speaking subject to mathematical correction in this Society, that would mean that you would have to have eleven shareholders each owning the same number of shares. But, of course, the Legislature was not content with that simple test and it went on to provide that various artificial assumptions must be made: for example, a husband and wife are treated as one; brothers and sisters as one; lineal descendants as one, and so on. Thus, if you get a whole family, there may be eleven of them but they may all be treated as one person, and therefore the company would be brought in. There is another provision that if you have shares held in trust, each trust has to be treated as a single person and, I suppose, somebody must have thought this good news because now we will have eleven trusts, different trustees, each holding for mother and father and brother and sister. That will be eleven people who may be outside the scope

An address delivered at a meeting of the London and District Society of Chartered Accountants, held on February 26th, 1957; Mr W. E. Parker, C.B.E., F.C.A., was in the chair.

SUMMER COURSE

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Christ Church, Oxford, July 11th to 16th, 1957



Gillman & Soame Ltd, Oxford

SOME PERSONALITIES

From Left to Right, Seated: Mr A. S. MacLIVER, M.C., B.A., Secretary of the Institute; Lieut.-Col. D. V. HILL, M.A., Steward of Christ Church; Messrs W. H. LAWSON, C.B.E., B.A., F.C.A., President of the Institute; W. L. BARROWS, F.C.A., Vice-President of the Institute and Chairman, Summer Course Committee; D. V. HOUSE, F.C.A., Past President of the Institute, member, Summer Course Committee. **Middle Row:** Messrs G. D. SHEPHERD, M.B.E., F.C.A., Past President of the Institute; P. G. BARBER, M.B.E., F.C.A., leader of Group B; P. D. IRONS, B.Com., A.C.A., leader of Group E, member, Summer Course Committee; G. R. APPELYARD, F.C.A., leader of Group G; C. J. PEYTON, A.C.A., leader of Group D; G. F. SAUNDERS, F.C.A., member, Summer Course Committee; Messrs A. B. SNOW, F.C.A., leader of Group F; G. P. MORGAN-JONES, M.A., D. P. HUBBARD, B.A., a Secretarial Assistant of the Institute. **Back Row:** Messrs A. R. ENGLISH, A.C.A., Speaker; W. W. FEA, B.A., A.C.A., leader of Group H, member, F.C.A., leader of Group J; E. C. CORTON, F.C.A., leader of Group C; A. R. ENGLISH, A.C.A., Secretary to the Institute's Taxation and Research Committee; W. E. PARKER, C.B.E., F.C.A., Summer Course Committee; L. J. H. NOYES, B.Sc.(Econ.), A.C.A., Secretary to the Institute's Taxation and Research Committee; E. J. NEWMAN, M.A., F.C.A., F.C.A., Speaker.

of the legislation. But the Legislature countered there by providing that, further, if the income of the company could be attributed – apportioned is the technical expression – to a particular person, then he had to be regarded in himself as one of the shareholders, and so in that case you would find mother and father or brother A. and brother B. could be made an object of an apportionment and therefore the trust would break down and the apportionment would all go to A. plus B., which, being fewer than five, would bring the company back into the scope of the legislation.

Apart from spreading the control genuinely outside the five by providing that there shall be at least eleven members, there are exemptions. One is a 'subsidiary company', i.e. a company which is a subsidiary of another company which is not, in itself, within the scope of the statute: and the other is a company in which the public are substantially interested, and of which the shares are quoted on the stock exchange.

Subsidiary Company, or Not?

Now the only point I want to make on this is that the statute does not provide any specific date at which you are to apply the test as to whether the company I am speaking about is either a subsidiary, or one in which the public are substantially interested. It may be material, of course, when a change of shareholding has taken place inside the accounting year to know whether the company you are considering may be exempted on the last day of the accounting period. Can the Special Commissioners job back and say, 'But, well, half-way through you were not exempt in this way, so we will operate the legislation upon you'? As to that, there is no judicial decision that I know of, but there is a body of opinion that – and I want to stress this for a reason which will emerge later on when I am talking about apportionment – the only proper date for the Revenue to take is the last day of the accounting period in question. A good many years ago the late Frederick Grant, who had the distinction of addressing this Society, expressed that view.

The next thing you have to ask in this same connection is: 'How do you know whether the company is one in which the public are substantially interested?' The test in the statute is that the public must hold at least 25 per cent of the ordinary shares. Well now, who are the public? In a certain sense, all members are members of the public: who is to say *we* are not? An action of this kind came up when Lord Glanely, who had an important trading company and a very large shareholding interest in it, gave a large block of the shares away to his niece. The result of this gift to the niece was that Lord Glanely henceforward had 74 per cent of the shares and the question was: Was the niece a member of the public, to put it very broadly? She was held to be such in the Court of first instance. Mr. Justice Lawrence, now Lord Oakse, said that the niece was not one of the

people within the prescribed consanguinity degrees I spoke about a few minutes ago: she was not one of the people like brothers and sisters who have to be lumped together. There is, he said, a sort of presumption that nieces were not intended to be roped in, so to speak, and might well be regarded as members of the public and he so held. The Court of Appeal upheld his decision and that was endorsed by Lord Justice Scott, who had rather a nice sense of wit, and who remarked in the course of his judgment that really there was no finding that the niece was under the control of Lord Glanely. As a result, the position is that consanguinity, provided it is not within the rather close first degree relationship, still leaves the taxpayer entitled to say that 'this person is a member of the public'.

Now there is one other case on this topic and it is not an English case. It came to the Privy Council in 1955 from East Africa. But it is of great help. In that case two brothers were directors. One sold to the other 26 per cent of his shareholding – I am oversimplifying – and that left brother A. with 74 per cent and brother B., when he had paid for his shares and been registered, 26 per cent; and the question was exactly as it is under our statute: Was that a company in which the public was substantially interested? Two interesting things were held by the Privy Council. They held in favour of the taxpayer: that the fact that these two gentlemen were directors did not mean that they were acting in concert together, and they therefore held that one could regard brother B., who had paid a proper price for his shares, as a member of the public just like anyone else.

Voting Control and Kinship

This test may be some help, although it cannot be regarded as exhaustive. First of all, find out who holds 51 per cent of the voting control, whoever they are. Then add to your 51 per cent all the people who are within (if I may use the expression in a purely technical sense) the prohibited degrees of kinship; of course add in people of whom it can really be said that they are acting in concert (whatever 'in concert' means; one knows what it means when one finds it, although it is not easy to define); then, if, when you have added to the 51 per cent of shareholders all – if I may use the expression – the 'leper' classes from the point of view of tax, you are still left with no more than 74 per cent, you are entitled to say that the company is one in which the public has a substantial interest and which is outside the scope of the legislation.

The next branch of the subject is one in which one ought to face the question: 'Who is the judge – so to speak – of whether a company has made a reasonable distribution of its profits so that, even though it is within the scope of the legislation, it escapes its impact?' In the case, you will remember, of the jewellers and goldsmiths – the *Fattorini* case – in the House of Lords in 1942 (21 A.T.C. 98) Lord Atkin, who was such a stalwart upholder of the rights of the

subject, quite clearly laid this down. He said it is not enough for the Revenue to show that it would have been reasonable for a company to have distributed a greater part of its profits. In order to succeed in that part of the action the Revenue must show that the company acted unreasonably in withholding part of its profit. You see what a very different question that poses because, on the face of it, it means that the Revenue must be able to point to something definitely unreasonable in the dividend policy of the company. Lord Atkin was, in terms, supported in the same case by Lord Wright and the three other judges of great eminence, Lord Macmillan, Lord Simon and Lord Porter. Though they did not disagree – this was a case where none of the noble lords disagreed with each other – they did not positively conform to what Lord Atkin said. So that raises two questions in one's mind. First of all (and I am coming to this later on) there is a question of some importance to the advocate: namely, if you are going to have litigation, upon whom does the onus lie, because the person upon whom the onus lies must open the appeal. That is one side; and the other side, which we all might think the rather more practical side, is: how far are we entitled to say, in discussion with the Revenue, 'Well, you may think we could reasonably have distributed more and this is not enough, but you have got to show us positively that what we did was irrational'.

Onus on the Revenue

This matter came up in connection with the avoidance provisions of profits tax and Mr Justice Atkinson, in 1947, quite clearly and in terms, held that the right view was that the onus was on the Revenue.

He was not dealing with the same statute, but the way he put it was this: he said it is a cardinal principle of English law as yet, that the man who is charged with any penal action shall, first of all, be told the facts upon which he is accused; and as far as the question of appeal is concerned, that view was expressly endorsed by Mr Justice Upjohn in 1954, and it governs appeals procedure at the present time; that is to say, on appeal to the Special Commissioners acting in their appeal capacity, the subject is entitled to require the Revenue advocate to open the case. It is just worth the advocate bearing in mind that if he does this he may lose the right to reply. It is a matter for the advocate's own choice.

There is this second difficulty: and here I must be a bit technical. This was a case decided in 1956, in April of last year, also by Mr Justice Upjohn. If the taxpayer solemnly chooses to take that course before the Special Commissioners and not to call any evidence, then the case must be decided upon the footing that the taxpayer has no evidence to call. The case is not uninteresting; it was that of *White Brothers Limited*, a firm of corn merchants (35 A.T.C. 196). They sold their business to another firm, retaining an amount of cash and investments, and the business showed a rising trend of profits. These were the facts that the Crown were able to produce in evidence in their

case to the Special Commissioners. Upon these facts, counsel for the company said to the Special Commissioners that there was no case whatever to answer: the Crown had failed to discharge the onus upon them, and that was that. But the Crown took the case to the High Court and Mr Justice Upjohn held that these facts, by themselves, discharged the onus that lay upon the Crown. There might have been an answer to it by the taxpayer but the taxpayer had elected not to supply the answer.

Taxpayer Bound to Call Evidence

Now the learned judge did not, thereupon, decide the case against the taxpayer. He said that at this time this was a new point and he would send the case back to the Commissioners so that the taxpayer should have his chance; next time he will have that notice and he will know that if he takes that course then he will take it at his own peril. Therefore, Mr Chairman and Gentlemen, in most cases nowadays, as it seems to me, on an appeal, the taxpayer is strategically bound to call evidence and usually it will pay to open the case, which he can do by agreement with the Crown representative.

Of course, that is the technical side of the thing. The question remains as to how far the Revenue have got to prove the alleged unreasonableness of the retention of the profits and with some regret, speaking in this hall, I must say that the full force of Lord Atkin's view has been whittled down by a later case in which Lord Justice Jenkins said, in effect, that he accepted that the Crown had got to show that the company had acted unreasonably. He then went on to say, 'But if there is no reason, or no sufficient reason, to show why the company should have retained its profits, then usually it will have acted unreasonably'.

Now on the kind of cases which all of us have usually to deal with, you can point to the requirements of business expansion which, if the matter stopped there, would be a sufficient defence for the company retaining its profits, but almost inevitably, because of the fiscal history of this subject, it will be a case which is coupled with loans to directors or some such matter as that. How then, you may ask, do the Appeal Commissioners deal with a case of that kind? There are certain features which, it seems to me, have weight and, I think, quite logically have weight with any appellate tribunal faced with this situation.

Repayment of Loans

It will have the evidence and accept the requirements for business expansion. But then it has got to go on to deal with the fact that during this period, when the company is saying it must desperately hang on to its money to finance its future, it has in fact made loans to its directors. How is that met? Well, the obvious way of meeting it is for the directors to repay the loans before the case comes up to trial. There is, however, a ~~small~~ ^{small} ~~amount of~~ ^{amount of} ~~money~~ ^{money} ~~on the part of some~~ ^{on the part of some}

the introduction of the purchase tax on which about 1,000 people are employed full time. The Committee examined a number of suggestions for simplification of Customs procedure and recommended the adoption of some of them. One such suggestion was that the list of goods should be codified, so that it would not be necessary to write out in full such an item as

'Mexican fibre or istle, madagascar fibre and gamuti or gomuti fibre, not further dressed after scutching or decorticating'.

The Committee think there is great scope for simplification and mechanization which would speed up procedure. Another recommendation concerns the procedure at airports, particularly at London Airport, with a view to speeding up the control of passengers' luggage and aircraft stores. The Committee observe that a Customs delay of a few hours may not mean much after a sea voyage of three weeks, but could be highly objectionable after a flight of one hour. As regards the disposal of seized goods, it is recommended that more trouble be taken to attract the small buyer, instead of always disposing of goods in large parcels, of interest only to dealers on a large scale.

Key Moves on European Trade

In the last two weeks there have been two important moves in the effort to bring greater freedom to European trade. The first of these being the French and German votes on the European common market; the Treaty of Rome, establishing the common market, has now been ratified by both countries.

In addition, there have been talks in London about the proposed free trade area. The opportunity was seized while the Commonwealth Prime Minister's conference was taking place to hold discussions among officials about the future of Commonwealth trade if the free trade area is established. So far as is known, there has been no modification in London of the United Kingdom Government's decision to exclude agricultural commodities from any proposed European system. Strong hints have come from the French recently that the free trade area must include

agriculture but they have not fallen on receptive ears. If and when the free trade area comes into existence, however, the exclusion of agriculture may not last indefinitely, but there is little doubt that this country will not go into the area with agricultural commodities on the list of goods to be included.

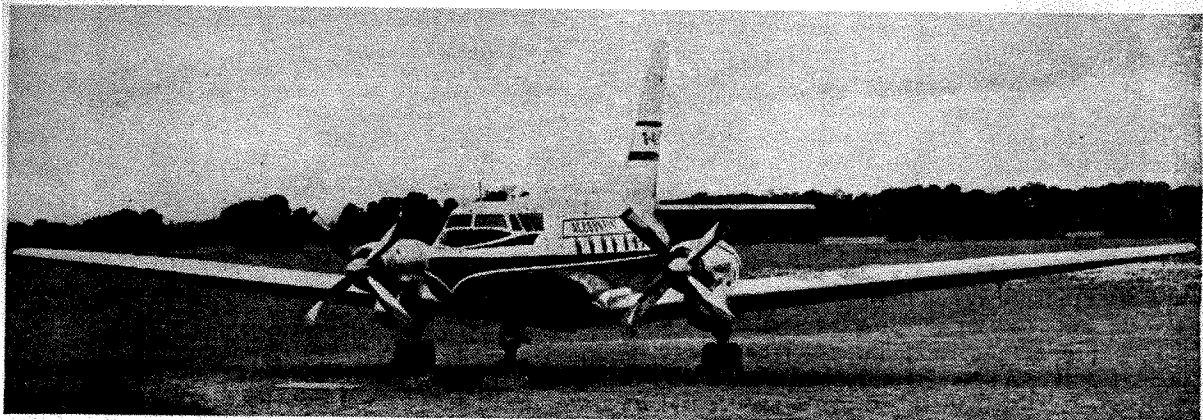
Now, the 'Accountant' Aircraft

It has been announced that the prototype of an aircraft of revolutionary construction has recently made its maiden flight. The special interest to the profession of this event lies in the fact that the aircraft has been dubbed the 'Accountant', underlining the economy in the design and construction of its airframe.

The aircraft is powered by two Rolls-Royce Dart turbo-prop engines; it has a range of 2,500 miles and a speed of 295 miles per hour. Seating up to twenty-eight passengers and capable of being extended to a total of forty seats, it is regarded as being particularly fitted for the replacement of the Douglas DC3 and Dakota type aircraft in the world's markets.

The development of this new aircraft is an entirely private venture by a small forward-looking company called Aviation Traders (Engineering) Ltd.

With the increasing demands being made of modern aircraft, new designs tend to become ever more complex with corresponding increases in weight and costs. In the 'Accountant', however, new methods employed in the design and construction of the airframe have been used which lead to a great reduction in man-hours required and make it possible to offer it for sale at a price considerably lower than if orthodox methods were used. The basic price of the complete aircraft is about £150,000, about half the cost of a similar Dutch aircraft. Technical details of the 'Accountant' were circulated to Dakota and Dakota-type operators throughout the world in 1954 and since that time there has been a widespread and continuing interest in the aircraft from both business executive operators and from civil and military transport operators. A number of airlines have shown close interest in the plane, interest being particularly strong in Canada, the United States and South America.



The ATL90 'Accountant' before take-off for its maiden flight.

Finance and Commerce

Fears of inadequate Government action to curb inflation have led to a further decline in gilt-edged stocks. War Loan has reached a new 'low', and even redemption yields of 6 per cent have little institutional investment attraction. Industrial equities, after some nervousness, have resumed their upward trend.

NAAFI

It is an ageing thought to consider that there probably are many young readers of this column who have never seen a cup of Naafi tea poured in anger! For the attention of such readers as well as of those whose experience is wider we reprint this week the Naafi accounts for 1956. The figures themselves cover only three pages of a 48-page publication of an exceptionally high standard.

Naturally, Naafi's turnover varies in relation to the strength of the armed forces. In 1945 turnover was over £180 million. In 1956 it was some £63 million. Now the organization is faced with a reduction in 'customer-potential' from 690,000 to 375,000 in the next five years, a period during which heavy capital expenditure on modernization is faced. As part of this programme, electronic calculating machinery has been installed at the Nottingham accounts office.

At present some 30,000 men and women of a score of nationalities and of varying creeds and colour, working in about forty different countries, are employed by Naafi in the staffing and clerical work needed for the operation of 1,350 canteens, thirty clubs, more than 500 shops and messing stores, twenty-five sports shops, 300 mobile canteens and seven holiday centres.

Profit-sharing

Analysis of turnover inevitably shows some astronomical figures and much incidental, if not particularly vital, information. Last year, for instance, Naafi bakeries made 22,687,464 bread rolls, 15,080,868 sausage rolls and 74,279,244 small cakes. The restaurant service replaced 1 million cups and 1½ million glasses. For every ten glasses of beer, Naafi sells nine glasses of milk, fifty cups of tea, fifteen glasses of soft drinks and ten cups of coffee. In United Kingdom canteens, 7s 5½d in every £ the serviceman spends goes on cigarettes and tobacco.

The Naafi profit and loss account shows the allocation of surplus to the three branches of the armed forces. The 'profit-sharing' basis on which the organization works begins with the cash rebate of 6 per cent on canteen trade payable monthly to individual units. There are also cash discounts on shop sales to families and messes.

At the end of a year's trading the net surplus, after making proper provision for reserves and contingencies, is paid as extra rebate to the service ministries for distribution, usually to service welfare funds.

In the 1956 accounts, there was a balance of £880,242. The Navy's share of £25,234 was taken to the 'contingencies reserve' on Navy account depleted in recent 'bad' years of Navy trading, when losses were covered by contingency account drawings. The distribution of the extra rebate is decided by the service ministries and not by Naafi itself. As the profit and loss account shows, £391,640 of the disposable surplus has been retained for future distribution.

Money Market

Treasury bill conditions were little changed on July 12th. Applications totalled £424,760,000 and the market bid was held at £99 os 9d, at which 36 per cent was allotted. The average rate was little altered at £3 16s 11¼d per cent. This week the offer is maintained at £250 million.

NAVY ARMY AND AIR FORCE INSTITUTES Profit and Loss Account for the year ended 3rd November 1956

1955 £		£
64,324,860	TURNOVER	63,424,234
3,827,752	Surplus on Trading, before charging Rebate and Discount	3,668,275
138,206	Income from Investments	202,219
274,190	Net Proceeds on realisation of surplus vehicles, equipment, etc.	185,687
4,240,148	Gross Surplus before charging Rebate and Discount	4,056,181
3,390,962	Rebate and Discount	3,298,576
849,186		757,605
—	Sums provided in previous years to meet liabilities, not now required	245,017
849,186		1,002,622
143,099	Depreciation of Investments	122,380
706,087		880,242
475,000	Transfer to:	
75,000	Development Reserve	—
—	Staff Pension and Benefit Reserve	—
—	Contingencies Reserve on Navy Account	25,234
550,000		25,234
156,087		855,008
53,886	Transfer from Contingencies Reserve to meet a loss for the year on Navy Account	—
209,973	Giving a balance of for Extra Rebate allocated in accordance with instructions of the respective Service Ministries, as follows:	855,008
NIL	NAVY	NIL
66,338	ARMY AND AIR FORCE	207,728
143,635	Army	255,640
—	Air Force	391,640
209,973	Set aside for future Extra Rebate	855,008
—		—

NOTES

- The Surplus on Trading shown above has been arrived at after charging depreciation of Freehold and Leasehold Properties amounting to £79,599 (1955 £67,869)
- Replacements of Furnishings, Equipment and Vehicles have been charged against Trading Revenue

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Answer to Inflation?

SIR, — At the moment, when there is a national search in progress for the answer to inflation, I wonder if the accountancy profession have it in the guise of budgetary control and standard costs.

Can the various accountancy bodies set up a committee to examine this matter in detail and, if the answer is positive, consider the wide-spread advocacy in industry of these up-to-date management techniques for the improvement of business profits and thereby the national economy.

Yours faithfully,
C. RUSS.

London, NW3.

Centralized Collection of Premiums

SIR, — I am at present engaged in a major reorganization concerning the collection of insurance premiums and interest on policy loans and mortgages where the total number of items to be received and banked will vary between 1,000 and 3,000 daily. I would much appreciate receiving the views of any of your readers who have, or are currently reorganizing a collection of this size with the object of planning it in the most efficient way.

The present collection is dispersed among thirty branches situated in different towns in the United Kingdom. Notices are prepared by the head office and dispatched direct to the payers just prior to the month in which the item(s) falls due. At the same time, receipts in respect of these items are sent to the branches responsible for collection, accompanied by debit lists. The notices, receipts and debit lists are prepared from addressograph plates but punched cards are used for internal accounting purposes. The great majority of remittances reach the branches by post and the branches then bank the amounts and dispatch the receipts. The branch bank accounts are subject to an automatic transfer arrangement on a weekly basis. The total amount to be collected in the course of a year is of the order of £15 million, so that the savings to be achieved by obtaining the use of the money at head office even one week earlier and of reducing the number of staff engaged upon the collection are expected to be considerable.

We are expecting delivery of the new Powers Samastronic Printer very shortly and this will enable us to produce a notice in a reasonably condensed form, punched address cards being interpolated with the present series of account cards. We are providing for the notice form to be returned to us for a receipt to be impressed on it and the form has a counterfoil which at that stage would be detached and retained by us for any subsequent reference. On the back of the form (and counterfoil) is being printed a bank pay-in slip so that the payer can deposit the amount

due at any branch of our bankers for credit to our central account instead of remitting through the post. His bank pay-in slip on the reverse of the notice will serve as an acknowledgment. Alternatively, he can take the complete notice to any of our branches with the amount due when the branch will be empowered to receipt the notice, bank the cash to the credit of our central account and send the counterfoils to head office as notification. As a further alternative, we shall invite payment by bankers' order to avoid having to prepare a notice, offering as an alternative a certificate of payment annually. We already have a large volume of monthly items paid through a bankers' order account but consider an extension to deal with other than monthly items would effect useful economies.

The notice form is being devised so that folding in three (in one plane) will enable it to be mechanically inserted in a window envelope, unsealed, so that the payer has only to reverse the folds, insert the remittance and post it back to us in the same envelope. This will not only be a service to the payers but we estimate that it will considerably reduce the handling time on receipt. In cases where we have to seal the envelope containing the notice, following requests from payers, we shall insert a return envelope. The use of a special envelope, and a post box number separate from our ordinary correspondence, will enable the postal authorities to deliver this mail direct to the department handling it, without transmission through our postal section. A standard size envelope will facilitate mechanical opening and the notice forms themselves will, or should, be more speedily dealt with if returned to us folded in standard pattern.

After mechanically cutting the envelopes, on two edges, the cheques, money orders or cash will be extracted; the cheques and other than cheques in separate piles, and the notice forms and the cheques will be stacked separately in the order in which they are opened. At this stage, the counterfoils will be detached, any accompanying correspondence stapled to the back, and the other part of the form rubber-stamped, for the receipt, over a 2d stamp which can also be affixed mechanically. Receipts will then be inserted (mechanically, we hope) in window envelopes ready for dispatch. The counterfoils will pass to the staff handling the Powers debit cards who will select the appropriate cards, keeping them carefully in the same order, and such cards will be tabulated to provide the bank pay-in slip, the carbon copy serving as a daily cash sheet. After tabulation, the cheques will be called through with the pay-in slip. The tabulation concerning remittances other than cheques will be prepared and agreed separately and the daily cash lodgment made. At the end of each month, it

may be necessary to hold over banking for one day in order to effect the necessary account balancing. We are making provision for a week number to appear on the debit cards because as the volume grows we may require to balance weekly instead of at monthly intervals; in any case, it is likely that some numerical split may be necessary to break down the balancing sections into easily manageable groups. As a further function of this weekly division, we shall prepare, from the outstanding debit cards, reminder applications in the week prior to the expiry of the days of grace for payment.

We are not anticipating any large volume of correspondence having to be dealt with at the time the amounts are cleared, but obviously there will be some items and these will normally be passed to the branches, who will still be responsible for servicing

the contracts. There is also normally a fairly large volume of premium payment inquiries from banks and others to be dealt with which will all now devolve upon head office, but we are taking active steps, with the banks' co-operation, to reduce the amount of work involved by the general adoption of a returnable inquiry form.

While we have endeavoured to think of all possible snags arising, it may well be that one of your readers who has had experience on a similar system, may be able to suggest some things which we have overlooked. In particular, I would like to hear the views of anyone who has applied time and motion techniques to the recording and handling of remittances.

Yours faithfully,

Norwich.

R. F. LAWRENCE.

THE INSTITUTE'S SUMMER COURSE

On Thursday, July 11th, two hundred members of the Institute assembled at Christ Church, Oxford, for the eleventh summer course, which was presided over by the President of the Institute, Mr W. H. Lawson, C.B.E., B.A., F.C.A. The Vice-President and Chairman of the Summer Course Committee, Mr W. L. Barrows, F.C.A., was also present, together with other members of the Summer Course Committee—Messrs T. A. Hamilton Baynes, M.A., F.C.A., P. F. Carpenter, F.C.A., W. S. Carrington, F.C.A., W. W. Fea, B.A., F.C.A., D. V. House, F.C.A., P. D. Irons, B.COM., F.C.A., and G. F. Saunders, F.C.A. Mr Gilbert Shepherd, M.B.E., F.C.A., also attended.

Members were divided into nine groups with approximately twenty members in each group and the course was organized on the familiar pattern of addresses in Hall with discussions in groups. There were three formal and two informal addresses in Hall, whilst those who have attended a summer course will know that at group meetings there was informality and free discussion, with no punches pulled.

Training for the Profession

The first formal paper was presented on Friday by Mr W. E. Parker, C.B.E., F.C.A., on 'Training for the profession'. In his paper, Mr Parker set out a number of official views on training. He summarized the view expressed in the Carr-Saunders Report and gave a short statement of the views expressed in the Council's statement on 'Education and training for membership', published in 1951. He also summarized the report of the American Commission on 'Standards of education and experience for Certified Public Accountants', and the recommendations of the special committee of the Scottish Institute. Following this, he expressed a number of personal views and ended with a 'recipe for the use of principals' which contained advice on a number of points normally requiring attention by a principal when dealing with an articled clerk.

Finance for Privately-owned Businesses

On Saturday, Mr A. R. English, A.C.A., presented the second formal paper on the subject of 'Finance for privately-owned businesses', including reorganization

to facilitate the payment of estate duty. Mr English directed attention to the number of privately-owned businesses and to their importance and characteristics. He then described the resources available to finance such businesses and the form of finance suitable for them. Other matters dealt with included a number of tax difficulties which arise in connection with the financing of such businesses and with the role of the accountant in connection with the financing. Mr English's paper should be of the greatest assistance to those who seek finance for privately-owned businesses.

The Layout and Design of Accounts

The third paper was presented last Monday by Mr E. J. Newman, M.A., F.C.A. The subject of the paper was the 'Layout and design of accounts'. After referring to some modern developments, Mr Newman reviewed several principles to which the draftsman of accounts should pay attention and then went on to comment on the layout and design of both published and unpublished accounts. Included in his comments on published accounts were some concerning the ancillary information which many companies now provide with their annual reports.

The papers were exhaustively discussed by the members of the course in their groups and many questions were addressed to each speaker, the replies to which were given during sessions in Hall.

Informal Talks

On Sunday, two informal talks were given in Hall. In the morning, Prof. J. R. N. Stone, C.B.E., M.A., gave a talk on his work as P. D. Leake Professor of Finance and Accounting at Cambridge University, and in the evening Mr G. O. May, F.C.A., C.P.A., the distinguished veteran American accountant, talked to members on accounting problems arising from changes in the purchasing power of money. Members were delighted that Mr May had found it possible to be present at the course, particularly as this year he is celebrating sixty years of membership of the Institute.

The afternoons were left free and members took the opportunity of visiting places of interest in or around Oxford or of playing golf. On Monday afternoon there

was a golf competition which was won by Mr W. R. Carter, M.A., F.C.A., with Mr N. B. Nutt, F.C.A., as runner-up.

Guest Night Dinner

Among the guests entertained at the guest night dinner held in Hall last Monday were Dr J. Lowe, M.A., Dean of Christ Church; Mr Roy Harrod, F.B.A.; Lieut.-Col. D. V. Hill, M.A., Steward of Christ Church; Sir Douglas Veale, C.B.E., M.A., Registrar of Oxford University; Mr H. H. Keen, M.A., F.C.A., the Secretary to the Curators of the University Chest; and Mr G. O. May, F.C.A., C.P.A.

In proposing the toast of 'Oxford University and Christ Church', Mr Lawson drew attention to the

appeal for the preservation of historic buildings of Oxford University. In his reply, the Dean indicated that the governing body of Christ Church were pleased that each year a summer course for members of the Institute was held within its precincts.

Mr W. L. Barrows, F.C.A., Vice-President and Chairman of the Summer Course Committee, proposed the toast of 'The Guests', to which Sir Douglas Veale, Mr Roy Harrod and Lieut.-Col. D. V. Hill responded.

On Tuesday morning, after Mr Newman had replied to the numerous questions submitted to him by the groups, the course came to an end and all members attending agreed that another summer course at Christ Church had been an unqualified success.

SEVENTH INTERNATIONAL CONGRESS OF ACCOUNTANTS

AMSTERDAM, SEPTEMBER 9th—13th, 1957

The Seventh International Congress of Accountants is due to open at Amsterdam on September 9th and will be one of the greatest international gatherings of the year to be held in this old and famous city. Over 2,500 delegates and ladies will be present, of whom 1,500 are attending from abroad – from all parts of the world.

We have referred in previous issues to the programme for the Congress and on May 4th we gave details of the delegations from the United Kingdom and Ireland. Now, the Congress Committee has issued the papers to be presented, together with a preliminary number of the *Congress News* – a paper in the style of 'The Accountant' *Congress Daily News* published during the London Congress of 1952 – which will report each day on the proceedings in Amsterdam from September 9th to 13th.

Panel Members

As already announced, six subjects have been selected for discussion at the Congress and there will be five papers on each one. At the sessions, the subjects will first be dealt with by a panel, or discussion group, on the platform composed of a discussion leader, the five authors of papers – one acting as rapporteur – and three other panel members; members of the Congress will then have the opportunity to participate. The members of the various panels are as follows:

PRINCIPLES FOR THE ACCOUNTANT'S PROFESSION

Discussion leader: L. van Essen Lzn (Nederlands Instituut van Accountants).

Rapporteur and author of a paper: Sir Thomas B. Robson, M.B.E., M.A., F.C.A. (The Institute of Chartered Accountants in England and Wales).

Authors of papers: Carman G. Blough, M.A., LL.D., C.P.A. (American Institute of Certified Public Accountants); Oïar I. Cassel, Civ. Ekonom. (Förenigen Auktoriserade Revisorer, Sweden); A. Th. de Lange, Ec. Drs. (Nederlands Instituut van Accountants); WP. Dr. Heinrich Wollert (Institut der Wirtschaftsprüfer in Deutschland e.V.).

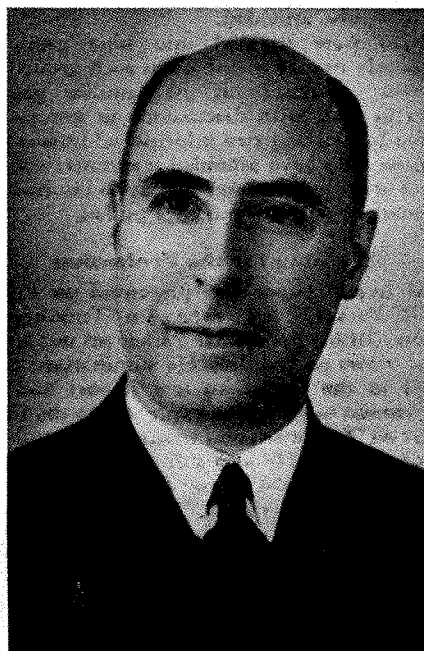
Other members of the panel: Paul Busittil, F.M.I.A. (Malta Institute of Accountants); J. Grant Glassco, O.B.E., B.COM., F.C.A.(CANADA) (Canadian Institute of Chartered Accountants); U. Shein (Burma Accountancy Board).

THE VERIFICATION OF THE EXISTENCE OF ASSETS

Discussion leader: WP. Prof. Dr. Ernst Knorr (Institut der Wirtschaftsprüfer in Deutschland e.V.).

Rapporteur and author of a paper: J. A. de Lalanne, C.B.E., M.C., B.A., C.A.(CANADA), (Canadian Institute of Chartered Accountants).

Authors of papers: Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (The Society of Incorporated Accountants); Donald J. Bevis, C.P.A. (American Institute of Certified Public Accountants).



Mr A. L. de Bruyne, Secretary of the Seventh International Congress, is the director of the Netherlands Institute of Accountants. A survey by Mr de Bruyne of the progress of the profession in the Netherlands was contributed to our columns on May 21st, 1955, on the occasion of the diamond jubilee of the Netherlands Institute.

Accountants); R. Burgert, Ec. Drs. (Vereniging van Academisch Gevormde Accountants, The Netherlands); Claude Paquet, HEC. (Chambre Nationale des Experts Comptables Diplômés par l'Etat, France).

Other members of the panel: Hussain Chaudhury (Pakistan Council of Accountancy); G. D. Stewart, F.I.A.N.Z., F.P.A.N.Z. (Incorporated Institute of Accountants of New Zealand); Prof. B. J. S. Wimble, C.A.(S.A.), F.S.A.A. (Transvaal Society of Accountants).

BUDGETING AND THE CORRESPONDING MODERNIZATION OF ACCOUNTING

Discussion leader: Paul Loeb (La Société des Experts Comptables Français).

Rapporteur and author of a paper: WP. Herbert Rättsch (Institut der Wirtschaftsprüfer in Deutschland e.V.).

Authors of papers: J. P. Wilson, F.C.W.A., A.C.I.S. (The Institute of Cost and Works Accountants); S. Prakash Chopra, B.A., B.COM., A.C.A., F.C.A.(INDIA) (The Institute of Chartered Accountants of India); Joseph Pelej, C.P.A. (American Institute of Certified Public Accountants); A. F. Tempelaar (Nederlands Instituut van Accountants).

Other members of the panel: R. van Iper (National College der Accountants van België); Carl Henrik Witt (Föreningen Auktoriserade Revisorer, Sweden).

BUSINESS ORGANIZATION AND THE PUBLIC ACCOUNTANT

Discussion leader: H. Reinoud (Nederlands Instituut van Accountants).

Rapporteur and author of a paper: F. M. Richard (Compagnie Nationale des Experts Comptables, France).

Authors of papers: J. E. Harris, B.COM., F.A.C.C.A. (The Association of Certified and Corporate Accountants); S. C. Bakkenist, Ec. Drs. (Nederlands Instituut van Accountants); Svante Kihlman, Ekon. mag. (Föreningen C.G.R., Finland); G. L. Phillippe (Controllers Institute of America).

Other members of the panel: R. Keith Yorston, F.C.A. (AUST.) (The Institute of Chartered Accountants in Australia); Shalom Proshan (Association of Certified Public Accountants in Israel).

THE INTERNAL AUDITOR

Discussion leader: B. Smallpeice, B.COM., A.C.A. (The Institute of Chartered Accountants in England and Wales).

Rapporteur and author of a paper: W. A. Walker, C.P.A. (Controllers Institute of America).

Authors of papers: R. A. Irish, F.C.A.(AUST.) (The Institute of Chartered Accountants in Australia); Ernest Sinnott, F.I.M.T.A., F.S.A.A. (The Institute of Municipal Treasurers and Accountants); L. G. Macpherson, F.C.A.(CANADA) (The Canadian Institute of Chartered Accountants); W. N. A. F. H. Stokvis (Nederlands Instituut van Accountants).

Other members of the panel: W. R. Davies (The Institute of Internal Auditors, U.S.A.); Børge Hansen (Föreningen af Statsautiserede Revisorer, Denmark).

ASCERTAINMENT OF PROFIT IN BUSINESS

Discussion leader: Weldon Powell, C.P.A. (American Institute of Certified Public Accountants).

Rapporteur and author of a paper: G. L. Groeneveld, Ec. Drs. (Nederlands Instituut van Accountants).

Authors of papers: C. I. R. Hutton, B.A.(OXON), C.A. (The Institute of Chartered Accountants of Scotland); Ira N. Frisbee, C.P.A. (American Institute of Certified Public Accountants); Prof. Palle Hansen (Föreningen af Statsautiserede Revisorer, Denmark); Prof. Dr. Leopold L. Illetschko (Kammer der Wirtschaftstreuhänder, Austria); Emile Mangal (Collège National des Experts Comptables de Belgique).

Other members of the panel: Helge Brände (Norges Statsautiserede Revisorer Forening); Börje Forsström (Föreningen C.G.R., Finland); Prof. Dr. Karl Kafer (Verband Schweizerischer Bücherexperten).



Seventeenth-century houses along the Herengracht. The third building from the left is the Hall of the Netherlands Institute of Accountants, where the secretariat of the Congress is situated.

'Venice of the North'

This is the second time that Amsterdam has been the venue for the International Congress, a previous Congress – the second in the series – being held there in 1926.

The overseas delegates who have not visited Holland before will find Amsterdam a picturesque city with fascinating waterways and innumerable bridges – it is known, of course, as the 'Venice of the North'. There are over 870,000 people in Amsterdam and it would seem that the majority ride a bicycle, for the *Congress News* reports that Amsterdammers have 500,000 push-bikes and 35,000 'buzz-bikes'.

Shipping is still one of the principal occupations, but in addition, the city has developed into a centre of Dutch industry, one of the remarkable features being the growth of the ready-made clothing industry which has assumed during the post-war years an importance hitherto unknown.

Despite the commercial and industrial nature of the city, it retains its architectural charm and there are many monuments and buildings of interest. The Rijksmuseum (National Museum) has one of the world's largest collections of paintings, especially by Rembrandt and his contemporaries, while the Municipal Museum possesses a unique collection of Van Gogh's.

The Congress is to take place in the Concertgebouw and in this building the large concert hall (where most of the sessions will be held) can seat about 2,300; in addition, there are several other large assembly rooms. The ball, concert and other social occasions arranged for the Congress will take place in this magnificent building.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship at the Council Meeting held on July 3rd, 1957, who completed their Fellowship before July 16th, 1957.

Associates elected Fellows

Asquith, Richard Fraser England; 1946, A.C.A.; (Wheawill & Sudworth), 19 Cavendish Road, Leeds, 1.
Dent, Walter Thomas; 1928, A.C.A.; 37 Ox Lane, Harpenden, Herts; and at Hemel Hempstead; also at Bletchley (W. T. Dent & Co).
Dinham, Eric Ambrose; 1924, A.C.A.; (*Jones & Dinham), Chapel Garden, Rectory Road, Wokingham.
Fowler, Reginald James Nepean; 1947, A.C.A.; (Edmonds & Co), 11 Hyde Gardens, Eastbourne.
Furniss, Edward John; 1949, A.C.A.; (F. W. Smith, Riches & Co), Hastings House, 10 Norfolk Street, Strand, London, WC2.
Gledhill, Norman; 1924, A.C.A.; (Johnson, Son & Gledhill), Southgate Chambers, 35 Southgate Street, Winchester.
Gregg, Arthur; 1952, A.C.A.; (Gregg Brothers & Co), 6 Brown Street, Manchester, 2; also at Barmouth, (Owen & Co.)
Ironsides, Donald James; 1951, A.C.A.; (Grace, Darbyshire & Todd), 19 Whiteladies' Road, Bristol, 8.
Prue, Norman John; 1951, A.C.A.; (*Eccleston, Prue & Co), Exchange Buildings, New Street, Birmingham, 2.
Whittle, John Hubert; 1950, A.C.A.; (Josolyne, Miles & Co), 28 King Street, Cheapside, London, EC2, and at Manchester and Paris.

Not in England or Wales

Williams, Akintola, B.COM.; 1950, A.C.A.; (Akintola Williams & Co), 11 Martins Street, Lagos, Nigeria.

Former Member re-admitted to Membership

Wrinch, Ronald Peter, 17 Valley Road, Ipswich.

PERSONAL

MESSRS TANSLEY WITT & Co, Chartered Accountants, of 22-24 Ely Place, London, EC1, announce that they have taken into partnership Mr G. B. BUNKER, A.C.A., as from July 4th, 1957. The name of the firm will remain unchanged.

MESSRS ALEC GUILD, F.C.A., and RONALD E. WEAVER, F.C.A., both of Westminster Bank Chambers, Hertford Street, Coventry, announce that their practices have been amalgamated and that they are now practising under the name of GUILD, WEAVER & Co.

MR CHARLES S. SHAW, A.C.A., announces that as from July 1st, 1957, he has commenced practice as CHARLES S. SHAW & SONS, at London Assurance House, 36 Bennett's Hill, Birmingham, 2.

MESSRS CLARKSON WEBB & Co, Chartered Accountants, of Granville House, Arundel Street, London, WC2, announce that Mr C. R. PLUMMER, C.A., has been admitted to partnership as from July 1st, 1957.

MESSRS RANSOM, HARRISON & LEWIS, Incorporated Accountants, of 11 York Street, Sheffield, 1, announce that their senior partner, Mr LESLIE LEWIS, F.S.A.A., retired from the firm on June 30th, 1957, after an association covering nearly forty years, though Mr LEWIS will remain associated with the firm as consultant. The practice will be carried on by the remaining partners, Mr L. GRAHAM WINFIELD, F.S.A.A., and

* placed against a firm name indicates that the firm is not wholly composed of members of the Institute.

Mr J. ROWAN, A.S.A.A., who announce that Mr JOHN LEWIS, A.C.A., A.S.A.A., a son of Mr LESLIE LEWIS, has been admitted into partnership as from July 1st, 1957. The name of the firm will remain unchanged.

PROFESSIONAL NOTES

Mr G. L. C. Touche, B.A., F.C.A., has been appointed a director of The Guardian Investment Trust Co Ltd, The Second Guardian Trust Ltd, and The Third Guardian Trust Ltd.

Mr Cecil C. Taylor, J.P., F.C.A., has been appointed a director of Morris & Jones Ltd.

Mr J. C. Gardiner, F.C.A., has been appointed an additional director of Shaw & Kilburn Ltd.

Mr S. E. Spicer, A.C.A., has been elected to the board of The Sperry Gyroscope Co Ltd.

Mr Alan Le Messurier Scott, R.D., A.C.A., has been appointed to the board of Powers-Samas Accounting Machines Ltd and to the executive office of director of finance and administration as from September 2nd, 1957.

MUNICIPAL ACCOUNTANT TO DIRECT COURSE IN NIGERIA

Mr Herbert Keeling, F.I.M.T.A., Borough Treasurer of Worthing, is visiting Nigeria at the request of the British Council, to act as director of studies of a vacation course on local government arranged at University College, Ibadan. The course, which lasts from July 27th to August 3rd, will be mainly concerned with the finance of local government and will be attended by councillors and chairmen of local councils from all parts of Nigeria.

Mr Keeling left for Nigeria on July 13th and before and after the course he will lecture in Lagos and in the Eastern and Northern regions of Nigeria. He will also hold discussions with local government officials in these areas.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

At a recent committee meeting, Mr E. Kenneth Wright, M.A., F.C.A., was elected Chairman for the ensuing year, and Mr Charles W. Aston, A.C.A., was elected Vice-Chairman.

THE SOCIETY OF INCORPORATED ACCOUNTANTS

LIST OF MEMBERS, 1957

A new edition of the List of Members of The Society of Incorporated Accountants, corrected up to March 1st, 1957, has now been issued. The total membership of the Society is shown to be 11,335, comprising 2,201 Fellows (1,838 in practice and 367 not in practice), and 9,130 Associates (1,867 in practice and 7,263 not in practice). The previous list of members issued in 1955 showed that membership at September 1st, 1954 numbered 10,311.

In addition to the alphabetical list of members and firms, there is a topographical list, and the names of the officers of the branches and district societies are also given. Other information includes the names of members of the Council and the names of past presidents, together with details of the Incorporated Accountants' Benevolent Fund.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS**RESIDENTIAL SUMMER SCHOOL**

The eighth annual summer school to be arranged by The Institute of Cost and Works Accountants is to be held at St Catharine's College, Cambridge, from Wednesday, September 25th to Sunday, September 29th. In previous years the school has been held from Monday to Saturday and it is felt that the new arrangement this year will enable members and registered students to attend who found it inconvenient in the past to be absent from business for a complete week.

Three papers will be presented to the school as follows: 'The cost accountant and automation in the factory', by Mr Alan Kenyon, B.COM., F.C.W.A., A.A.C.C.A., A.C.I.S., A.M.I.I.A., of Guest, Keen & Nettlefolds Ltd, Smethwick; 'The problem of the cost of variety', by Mr C. E. Power, A.C.A., F.C.W.A., a member of the Council, chairman of the Institute's Research and Technical Committee and chief cost accountant of the British United Shoe Machinery Co Ltd, Leicester; and 'Economics of plant replacement', by Mr J. A. Scott, C.A., F.C.W.A., chief financial executive of Hayeshaw Ltd, Manchester.

As is customary, a talk will be given on a more general topic by an outside speaker and this year Mr W. Manning Dacey, economic adviser to Lloyds Bank Ltd and editor of *Lloyds Bank Review*, will be addressing the school on the subject of 'The role of the banks in the national economy'.

SOUTH-WEST LONDON CHARTERED ACCOUNTANTS' DISCUSSION GROUP

The 1956-57 session of the South-west London Discussion Group was both lively and successful. At the beginning of the session, a number of interested and active members were recruited through the personal efforts of existing members and the contributions of the new members to the group discussions were as worth while as they were welcome.

In agreement with the London and District Society of Chartered Accountants and the Students' Society, invitations to attend group meetings were extended to final-year articled clerks in the district and the group was pleased to welcome some of these clerks as a result. It is hoped that they found their visits to the group meetings both interesting and instructive, and that they will be followed next session by their successors as final-year articled clerks.

During the session the group held two special meetings. At one of these it was pleased to welcome Mr W. E. Parker, C.B.E. F.C.A., then chairman of the London and District Society, and to discuss with him the problem of liaison between the Society and discussion groups. The second special meeting was a joint meeting with the Mid-Surrey Law Society to discuss the question 'Whose province is the tax jungle?' under the firm and witty chairmanship of Mr W. Phillips, District Inspector of Taxes for the Kingston area. It seemed to be generally agreed that neither profession had sovereign rights over the whole of the jungle and that the boundary line, though not very clearly defined, left income tax and profits tax firmly on the accountants' side and estate duty and similar taxes mainly on the lawyers' side. At its other meetings, the group discussed 'No par value shares', 'Retirement benefits', 'Relations with the Inland Revenue', and

'Consolidated accounts', and devoted one evening to an open forum.

The session ended with an informal dinner at which the group was happy to welcome as its guests Mr Parker, who was congratulated on his appointment to the Council of the Institute, and Mr C. W. Aston, A.C.A., a member of the District Society Committee.

The chairman of the group for the 1957-58 session will be Mr W. H. Marsden, A.C.A., and Mr R. A. Smith, A.C.A., will continue as treasurer. The secretary will be Mr L. J. Ive, A.C.A., of Messrs Shipley, Blackburn, Sutton & Co, 52-53 Jermyn Street, London, SW1.

BIRMINGHAM AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The seventy-fifth annual report of the Birmingham and District Society of Chartered Accountants shows an increase in membership during the year of 18 - from 986 at April 30th, 1956, to 1,004 this year. The total includes branch membership as follows: Wolverhampton Branch, 105; Coventry Area Branch, 83; Stoke-on-Trent Area Branch, 54.

Five Society meetings were held during the 1956-57 session and in addition there were meetings of the two discussion groups. The subjects discussed by Group A, which met monthly, were mainly of interest to practising members, while Group B, which held six well-attended meetings, discussed management accounting subjects. There was also a joint conference on management accounting held in conjunction with the London and District Society of Chartered Accountants, at Queen's College, Oxford.

The tuition courses, organized by the Senior and Students' Societies' joint lecture committee, continued during the year and the numbers attending the Saturday morning lectures were maintained at approximately 350 students. The week-end residential course at Ashorne Hill was well supported; this year the course will be held at Merton College, Oxford.

Each branch of the Society arranged a successful programme of meetings and lectures during the year: the Wolverhampton Branch held eight meetings; the Coventry Area Branch held three; and the Stoke-on-Trent Area Branch held five meetings.

THE LEICESTERSHIRE AND NORTHAMPTONSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

At the recent annual meeting of The Leicestershire and Northamptonshire Society of Chartered Accountants held at *The Grand Hotel*, Leicester, the following officers were elected for 1957-58:

President: Mr R. D. Lea, F.C.A.

Vice-Presidents: Messrs T. L. Plewman, B.A., B.COM., F.C.A., and J. B. Corrin, F.C.A.

Hon. Secretary and Treasurer: Mr G. L. Aspell, T.D., D.L., F.C.A.

Hon. Assistant Secretary: Mr J. B. Corrin, F.C.A.

Hon. Librarian: Mr W. E. Willis, D.F.C., B.A., A.C.A.

At the close of the meeting a discussion was held on recruitment to the profession.

ASSISTANT OFFICIAL RECEIVER APPOINTMENT

The Board of Trade announce that as from July 1st, 1957, Mr Robert Livingstone Lochhead has been appointed an assistant official receiver for the bank-

ruptcy district of the County Courts of Croydon, Guildford, Kingston upon Thames, Wandsworth and Windsor; and for the bankruptcy district of the County Courts of Aylesbury, Banbury, Brentford, Chelmsford, Edmonton, Hertford, Newbury, Oxford, Reading, St Albans and Southend.

CRICKET

MANCHESTER AND LIVERPOOL STUDENTS

A cricket match played at the Northern Cricket Club, Great Crosby, near Liverpool, on July 2nd, between the Liverpool Chartered Accountant Students' Association and the Manchester Chartered Accountants Students' Society resulted in a win for the Liverpool students by fifteen runs.

The home team batted first in ideal weather and scored 199. Manchester then went in to score 184 all out, their last wicket falling ten minutes before close of play.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 22ND, 1882

Extract from a letter to the Editor entitled

INSTITUTE EXAMINATIONS

SIR, - It is my ambition to be able to add the magic letters A.C.A. to my name, but the announcement in your issue of last Saturday, of the subjects we students are expected to be prepared in quite frightens me.

I can understand the importance of having a thorough knowledge of French and German, and even of Italian and Spanish, and therefore should not be surprised at being examined in French or German Bankruptcy Law in addition to Gil Blas and Marie Stuart. I also think that candidates should be well up in algebra, trigo-

nometry and euclid, but what have practical people like accountants to do with the Latin classics, and of what use to them are mechanics, elementary chemistry, physiology and geology?

I would further ask whether the examination of candidates on subjects such as the powers and duties of an arbitrator, and the laws of executors and administrators, does not make it look like a preparation for the legal profession.

In olden times, before phonetic spelling was advocated, a grounding in Latin and Greek was useful not only towards acquiring other languages, but in order to get at the derivation of words in our mother tongue; but in these days of high pressure it is surely more consistent with the practical nature of the profession to devote the time which would be *wasted* on Latin and Greek to the learning of useful and modern languages, and, as I would suggest, with a more profitable result.

A professional accountant, with whom I have the advantage of considerable intercourse, and whose reputation for thoroughness is, I believe, generally admitted, has often told me that the essence of account-antship is practical experience and method combined with sound common sense, and he insists that without the latter no amount of talent will produce a satisfactory practitioner.

It appears to me, however, that if we candidates are expected to 'cram' for so many subjects, some of which have no bearing whatever upon our daily avocation, we shall get so full of theoretical knowledge as to leave no room for that of a practical character. . . .

Yours, &c.

London, July 11th, 1882.

A STUDENT.

THE SOCIETY OF INCORPORATED ACCOUNTANTS

Results of Examinations held in May 1957

FINAL EXAMINATION Parts I and II

Honours Candidates (4)

*First Certificate of Merit and a
Sir James Martin Memorial Prize*
Malegam, Yezdi Hirji, B.COM. (formerly with S. B. Billimoria
& Co), Bombay.

*Second Certificate of Merit and a
Sir James Martin Memorial Prize*
Mody, Minoo Hormusji, B.COM. (formerly with A. F.
Ferguson & Co), Bombay.

*Third Certificate of Merit and a
Sir James Martin Memorial Prize*
Morrison, Peter George (with Morrish, Walters & Co),
London.

Fourth Certificate of Merit
Ings, Frank Ernest (with Ware, Ward & Co), Bristol.

Bath
Challenger, H. J. (with Mundy, Brewer & Johnson).
Webber, L. C. (with Ralph D. Owen & Co).

Belfast
McArcavey, P. (with Muir & Addy).
Smyth, M. (with H. V. Kirk, Palmer & Co).

Berkhamsted
Parrott, K. A. (with E. T. Mackrill & Co).

Birmingham
Andrews, N. T. (with Harold Sadler).
Brain, D. V. (with T. B. Scattergood & Co).
Chatterjee, S. K., B.SC. (formerly with Wall & Tanfield).
Heaven, D. J. (with Massey & Ellison).
Lock, J. F. (with Foster & Stephens).
Rigg, R. W. (with Howard Smith, Thompson & Co).

Blackburn
Benson, J. A. (with Rodger Smith & Co).

Bolton
Gerrard, R. K. (with Midgley, Gerrard & Co).

Bombay, India
Balsara, B. S., B.COM. (formerly with D.H. Kabraji & Co).

Bournemouth
Horn, R. W. (with Hibberd, Bull & Johnson).

Bradford
Ackroyd, J. H. (with Charles D. Buckle & Co).
Woodhouse, V. S. (with Heselton, Allan & Co).

Bridgnorth

Breakwell, F. R. (formerly with Wall & Co).

Brighton

Cowley, P. L. (with Carpenter, Arnold & Turner).
 Harland, H. R. L. (Borough Treasurer's Department).
 Newman, M. (formerly with Thomerson & Keating).

Bristol

Franklin, R. F. (with Curtis, Jenkins, Cornwell & Co).
 Withey, R. A. (with Lawrence, Gardner & Co).
 Wood, G. A. D. (with A. F. Roberts & Co).

Cambridge

Holmes, M. J. (with Slater, Dominy & Swann).

Cardiff

Laugharne, A. E. W., B.A. (with Alban & Lamb).
 Phillips, D. L. (with Deloitte, Plender, Griffiths & Co).
 Trollope, P. B. (with C. V. Miles & Co).
 Welsh, T. (with Percy Walker, Simpson & Co).

Clacton-on-Sea

Munson, J. P. (with Norfolk, Pawsey & Co).
 Scarlett, L. V. (with Norfolk, Pawsey & Co).

Clitheroe

Pollard, R. (with Kilner, Farnell & Moon).

Coalville

Atkinson, D. R. (formerly with Elverstone & Co).

Cork

O'Leary, J. F., B.COM. (with Henry C. Hitchmough).
 Sheehy, M. G. (with Kirby & Kirby).

Coventry

Binks, R. G. (with Daffern & Co).

Dacca, East Pakistan

Rahman, M. M., B.COM. (formerly with A. C. Roy & Co).

Derby

Bromley, R. A. (County Treasurer's Department).

Doncaster

Cooke, G. A. (with Watson, Waddington & Sharp).

Douglas, I.O.M.

Clucas, B. (with W. H. Walker & Co).
 Hughes, R. F. (with Shannon, Kneale & Co).

Dublin

Canton, P. J. A. (with Griffin, Lynch & Co).
 Cashin, G. A. (formerly with Craig, Gardner & Co).
 Gough, P. N. (with J. A. Kinnear & Co).
 Harrison, J. F. G. (with J. H. Barton & Co).
 Hayes, R. A. (with Cooper & Kenny).
 Love, J., jun. (with Cooper & Kenny).
 McCullough, W. B. (with Robert J. Kidney & Co).
 McGloughlin, D. J. (with Devereux, Lynch & Co).
 McGovern, T. K. (with Craig, Gardner & Co).
 MacNeice, J. S. A. (with F. R. O'Connor).
 O'Reilly, J. A. (with D. O'Connor & Co).
 Redmond, N. J., B.COM. (formerly with Barry, Rooney & Co).
 Russell, R. L. (with Stokes Bros. & Pim).

Dunfermline

Taylor, D. A. (with James Condie & Co).

Elgin

Smith, I. C. (with F. A. Ritson & Co).

Glasgow

Wallace, A. L. (with Alex. M. Shaw & Co).

Gloucester

Causon, R. J. (with Kingscott, Dix & Co).

Grantham

Woollatt, A. (with John Baldock & Gregory).

Grimsby

Dean, N. A. (with Forrester, Boyd & Co).

Guernsey

Nichols, G. R. (with Black, Geoghegan & Till).

Halifax

Gudgin, E. P. (with Bousfield, Waite & Co).

Harrogate

Heatley, M. J. R. (with Peat, Marwick, Mitchell & Co).

Hexham

Hill, J. K. (with Dixon, Brown & Co).

Hove

Lickorish, E. A. (with Russell, Fleming, Boys & Co).

Huddersfield

Shackleton, J. M. (with George Wright).

Hull

Batty, R. (with Hodgson, Harris & Co).
 Lacey, D. R. (with E. Kenneth Locking & Co).
 Marshall, E. (with Buckley, Hall, Devin & Co).
 Rowden, P. R. (with Smailes, Holtby & Gray).

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264 Candidates passed.**Summary of Results**

Candidates	FINAL			Intermediate	Preliminary
	Parts I & II	Part I	Part II		
Passed	15	248	248	304	51
Failed	31	484	231	470	73

Eight candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part I only.
 Nine candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part II only.

**THE INSTITUTE OF MUNICIPAL TREASURERS
AND ACCOUNTANTS****Results of Examinations held in May 1957**

*Places and Prizes will be awarded
on the combined results of the May 1957 and November 1957 Examinations.*

FINAL EXAMINATION**PART A**

(in alphabetical order)

Alcock, R., North Western Gas Board.

Aldred, S. W., West Bromwich C.B.

Allen, L., Derbyshire C.C.

Allen, P. J. V., North Cotswold R.D.C.

Allonby, L. A., Bury C.B.

Astley, N., Pudsey B.

Baker, L. R. T., Leicestershire C.C.

Beer, J. E., Wolverhampton C.B.

Binfield, D. E., Rickmansworth U.D.C.

Blackburn, G. H., Stockton B.

Bomont, R. G., Lancashire C.C.

Bragg, R. L., Plymouth C.B.

Campbell, D. A., Eastbourne B.

Cocks, P. J., Leicestershire C.C.

Coupe, F. D., Lancashire C.C.

Cox, D. S., Abingdon R.D.C.

Crook, R. F. A., Bristol C.B.

Daniels, A., Urmston U.D.C.

Davies, G. E., Manchester C.B.

*Dowdall, G. L., Sussex (West) C.C.

*Duff, P. S., Kendal B.

Eaton, D. S. M., Midlothian C.C.

Ellis, R., Haltemprice U.D.C.

*Enever, H., Petworth R.D.C.

English, W. J., Glasgow.

Exley, R., Eccles B.

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*Greenwood, F., Old Fletton U.D.C.

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*Halligan, J. E., Battersea M.B.
*Hancock, D. K., Chester C.B.
*Hopkins, D. J., Southend-on-Sea C.B.

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Knowles, F. I., Salisbury B.
Kny, N. T., Northampton C.B.

*Lewis, G. H., Skegness U.D.C.
Lloyd, J. H., Chislehurst and Sidcup U.D.C.

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Matthews, D. J., Thurrock U.D.C.

Mennell, R. T., Eastbourne C.B.
Metz, B., Lancashire C.C.
Milton, D. H., Crayford U.D.C.
Morgan, D. L. H., South Wales Electricity Board (Western Sub-Area).
Morgan, F. M., Camberwell M.B.
Moulding, T. H. G., Lancashire C.C.

Naybour, D., Liverpool C.B.
Newbury, D. R., Bristol C.B.
Nicholson, A. J. S., Sheffield C.B.
Nicholson, G. D., Beckenham B.

*Plant, E. W., Newark-on-Trent B.
Postlea, J. H., Cheshire C.C.
Preston, P. A., Hertfordshire C.C.

Rhodes, J. B., Manchester C.B.
*Riley, C. E., Gloucester C.B.
Rudge, W. R., Warrington C.B.
Ruff, R. F., Bedfordshire C.C.

Salt, S., Luton B.
*Scowcroft, R., Cardiganshire C.C.
Smith, D. F., Derbyshire C.C.
Smith, F. J., Southend-on-Sea C.B.
*Smith, J. E., Cheshire C.C.
Smith, W. W., Holborn M.B.

*Speakman, G. R., Blackpool C.B.
*Stafford, H. A., Doncaster R.D.C.
Stares, S. H. E., Harlow D.C.

Tasker, J. P., Corby D.C.
Tomlinson, R. G., Derbyshire C.C.
Townend, A. D., Scarborough B.
Treharne, G. R., Swansea C.B.
*Truckel, K. J., Ryde B.

Unsworth, J., Yorkshire (West Riding) C.C.

*Veale, W. F., Stafford B.

Wallis, A. O., Willesden B.
Wardman, D., Barrow-in-Furness C.B.
Warren, P., Stockton-on-Tees C.B.
Waugh, W. J., Carlisle C.B.
Webb, J. R., Swansea C.B.
*Webster, K. L., Brentford and Chiswick B.
Whittle, T. G., Mid and South East Cheshire Water Board.
Woodfield, W. T., Edmonton B.
Wrathall, W. J., Cumberland C.C.
Wright, V. G., Kettering R.D.C.

Yates, H. A. P., Rowley Regis B.

* Passed Part B (or Part 1) at a previous examination.

PART B

*Allen, C. W. M., Southgate B.
*Barker, G. F., Bedfordshire C.C.
*Barratt, R. F., Durham C.C.
*Bibby, J., Morecambe and Heysham B.
*Binstead, D. W., Reigate B.
*Blundell, F. H., Swindon B.
*Brown, D. McE., Ilkeston B.
*Bungeo, W. E. G., Winchester R.D.C.
*Burrows, K. S. H., Yorkshire (North Riding) C.C.
*Byron, T., Heywood B.
*Clayton, W. H., Sussex (West) C.C.
*Clement, D. J., Worcester C.B.
*Date, D. J., Wood Green B.
*Duckett, A. W., Bedfordshire C.C.
*England, G. A., Ealing B.
*Firth, A., Wigan C.B.
*Ford, R. E., Poplar M.B.
*Gammon, A., Dover B.
*Greasley, B., Shardlow R.D.C.
*Hazelgrove, C., Central Electricity Authority.
*Hinchliffe, A., Sheffield C.B.
*Holdsworth, D. B., New Forest R.D.C.

*Horn, P., Derbyshire C.C.
Hughes, J. V., Newport (Mon.) C.B.
*Jervis, F. N., West Bromwich B.
*Jones, D. E., Weymouth and Melcombe Regis B.
*Keegan, J. P., Essex C.C.
*Leahy, W., Cardiff C.B.
*Ling, R. J., Chatham B.
*Lowery, L., Middlesbrough C.B.
*Macdowell, A. A. H., Manchester C.B.
*Matthews, K. G., Lincolnshire (Lindsey) C.C.
*McFarlane, D. K., Southend-on-Sea C.B.
*McPherson, R. N., Port Glasgow.
*Merchant, D., Liverpool C.B.
*Michael, P. F., Glamorgan C.C.
*Morgan, D. G., Staffordshire C.C.
*Nicholls, C. G. O., Crawley U.D.C.
*Nicoll, H. C., Arbroath.
*Ormesher, J. R., Accrington B.
*Patrick, E. J., Oxford B.
*Perry, A. G., Meriden R.D.C.
*Philip, W. B., Pudsey B.
*Phillips, D. G., Berkshire C.C.

*Pinchen, R. T., Yorkshire (West Riding) C.C.
*Poole, J. H., Coventry C.B.
*Potter, D. L., Staines U.D.C.
*Prentice, G. R., Hertfordshire C.C.
*Preston, R. C., Harrogate B.
*Rich, R. S., Wiltshire C.C.
*Saunt, J., Chorley R.D.C.
*Scott, W. P., West Hartlepool C.B.
*Seager, D. G., Scunthorpe B.
*Stamp, G. T., Burton-on-Trent C.B.
*Sykes, F., Huddersfield C.B.
*Tedder, F. R., Farnborough U.D.C.
*Thomas, C. J., Swansea C.B.
*Thompson, B., York C.B.
*Thompson, J. K., Liverpool C.B.
*Vokins, J. T., Yorkshire (West Riding) C.C.
Walker, D. S., Chatham B.
*Watts, J. B., Sussex (West) C.C.
*Welling, W. A., New Windsor B.
*Whittaker, T., Cheshire C.C.
*Williams, A. E. G., Derbyshire C.C.
*Wyton, G., Poole B.

* Passed Part A (or Part 2) at a previous examination.

Summary of Results

	Intermediate		Final Part A		Final Part B		Total	
	No.	per cent	No.	per cent	No.	per cent	No.	per cent
Passed	89	37	91	33	66	39	246	36
Failed	154	63	186	67	105	61	445	64
Total	243		277		171		691	

MOTOR — FIRE — CONSEQUENTIAL LOSS*

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REPORT ON TRIBUNALS

NEARLY two years ago, the LORD CHANCELLOR appointed a committee with terms of reference covering two main subjects. The first was the constitution and working of tribunals, other than the ordinary courts of law, constituted under any Act of Parliament by a Minister of the Crown or for the purposes of a Minister's functions. The second was the working of administrative procedures including the holding of inquiries, in particular the procedure for compulsory purchase of land. The report of this committee has now been published¹.

Of particular interest to the accountancy profession is the little that the report says, under the first heading, about appeal hearings by General and Special Commissioners of Income Tax. While advocating public hearings in most cases, the report makes an exception for, *inter alia*, tax appeal hearings, where a taxpayer might be dissuaded from seeking his legal remedy through fear of publicity about his financial affairs.

On the more general aspects of appointment and procedure of Appeal Commissioners the report is disappointing. It recalls that the Royal Commission on Taxation examined the matter fully and it says that no evidence had been received to suggest a further review. The only proposal it makes is that the proceedings be brought into review at 'a suitable future date' by being included in the terms of reference of the new 'Council on Tribunals' which the committee recommend should be established.

For the rest, the committee's general recommendations on tribunals do not apply to income tax appeals. This is a pity, for several of the recommendations seem to be particularly apt to them and concern matters not mentioned by the Royal Commission. One is the imposition of an age limit on members; another is a requirement that chairmen should have legal qualifications in order to be better able to sift and weigh evidence.

On the general question of legal representation and costs, the committee's recommendations would be revolutionary if applied to tax appeals. It is suggested that Government departments should not be permitted legal representation unless the citizen for his part employs a lawyer. A successful applicant should always be given a reasonable allowance in respect of his expenses, to include travelling and subsistence, the attendance of witnesses, loss of remunerative time, and the cost of legal representation where the tribunal is satisfied that legal representation was reasonable. Indeed, even an unsuccessful applicant would have a good chance of obtaining these expenses.

¹ *The Report of the Committee on Administrative Tribunals and Inquiries.* H.M.S.O. 5s.

THE FINANCE BILL — XI

Second Thoughts on O.T.C.s

THE report stage of the Bill was concluded on July 17th and the third reading was taken on July 19th. On the report stage further amendments were made to the O.T.C. provisions, notably those dealing with the acquisition and relinquishment of O.T.C. status.

Criticism had been made earlier that there was no express provision for a company which qualified under the Bill as an O.T.C. but which preferred not to have that status. Again, it was argued that even though a company might have had O.T.C. status, it should have the express opportunity of relinquishing it, provided that there was no tax avoidance element. Finally, it was pointed out that in practice it would be easy enough to lose O.T.C. status, if desired, by simply doing something which automatically disqualified the company. These criticisms have now been met by amendments to clause 22 and clause 29 which have also been renumbered 23 and 30 respectively, to allow for a new clause 6.

Subsections (1) and (2) of clause 23 have been amalgamated and four new sub-clauses added. The first allows a company which has never been an O.T.C. the unfettered right to elect not to be one. The next sub-clause gives an existing O.T.C. a qualified right to opt out of the status. It has to apply by notice to the Inland Revenue for a direction that it shall not qualify as from a particular April 6th. The Inland Revenue are bound to give that direction unless both

- (a) the direction would result in loss relief or capital allowances being given in the first year against what, without the direction, would be 'investment income'; and
- (b) it appears to the Inland Revenue that this relief, together with any corresponding reduction in profits tax, is the sole or main benefit which the company would derive in that first year from the direction.

Clause 23 (5) gives to a company which has opted out of O.T.C. status the unfettered right to opt back in again. No time limits are expressly laid down in the clause, but clause 23 (5) provides for these to be imposed by regulations made by the Inland Revenue.

The applicant can appeal against the refusal of a direction. To do so it has to give notice in

writing within 30 days, requiring the application to be heard and determined by the Special Commissioners, who are then to determine the case on the lines of a Schedule D appeal, with the usual provisions for appeal by way of case stated on a point of law. Presumably the appeal can be on both (a) and (b). As regards (b), if it appears to the Special Commissioners that loss and capital allowance relief is *not* the main benefit, then presumably it must allow the appeal, even though the subsection requires the Commissioners of Inland Revenue, and not the Special Commissioners, to be satisfied on this point.

Clause 30 (2) gives the Inland Revenue power to disregard minor matters which would otherwise rob a company of O.T.C. status. A new sub-clause (4) now gives companies the right of appeal against the Inland Revenue's refusal to exercise this discretion. The right follows the same lines as the one discussed above.

The new sub-clause (3) is directed against companies which deliberately enter into transactions for the purpose of divesting themselves of O.T.C. status, with the ultimate object of claiming loss or capital allowance relief against investment income. Where it appears to the Inland Revenue that the sole or main benefit is the obtaining of such relief in the first year, with a corresponding reduction of profits tax, the Inland Revenue may of their own motion make a direction that no loss relief be given and that the capital allowances in question be disregarded. Here again there is a right of appeal.

Clause 26 (3) (formerly 25 (3)) was amended so as to enable an O.T.C. which is a subsidiary to claim repayment of the tax deducted from dividends paid to it by an O.T.C. which is a fellow subsidiary. The sub-clause has to be read in conjunction with clause 35 (3) which extends the definition of trading income in the case of intra-group dividends.

Moving the third reading of the Bill, THE FINANCIAL SECRETARY TO THE TREASURY referred to the criticisms which had been made of the treatment accorded to non-resident subsidiaries of O.T.C.s, particularly where the subsidiaries were resident in the Commonwealth. He urged the companies concerned to seek some solution of their difficulties within the Bill as drafted. It

might be possible, for instance, to have for the same company a central board of directors in the United Kingdom, so as to give the subsidiary resident, and therefore O.T.C. status, and yet for the overseas operations to be carried on by a local board, thus retaining direct association with the overseas territory. MR POWELL added that the Inland Revenue would be prepared to discuss whether such a solution would be appropriate in a particular case. Both the CHANCELLOR and the Inland Revenue wished to learn from the experience of working the Bill and to give all possible advice to companies that might be affected.

O.T.C. Regulations

A wide power to make regulations is given to the Inland Revenue by clause 34, including regulations governing the collection of tax where an assessment is under appeal. Mere failure, with or without excuse, to comply with regulations about the furnishing of information, or the production of documents, attracts a penalty of £50 – with further penalties of £50 a day after the Inland Revenue has obtained judgment.

Remaining Income Tax Provisions

We now turn from the complicated provisions about overseas trade corporations to the remaining income tax provisions of the Bill. Clause 18 has two sub-clauses, one dealing with Schedule A assessments in Scotland and the other with similar assessments in Northern Ireland.

The Valuation and Rating (Scotland) Act, 1956, by Section 16 and the Third Schedule, brings to an end for 1957–58 and subsequent years the system of owners' rates (all rates being payable by the occupier) and provides for a corresponding reduction in rent. Clause 18 (1) (a) provides for a continuance of a deduction for notional owners' rates. Clause 18 (1) (a) provides for Schedule A valuation to be made by reference to the rateable value (except for the purposes of an excess rent assessment). Clause 18 (1) does not affect properties let at a rack-rent fixed by agreement commencing after the beginning of the rating year 1957–58, nor properties where the rent is increased other than by agreement.

In Northern Ireland, clause 18 (2) preserves the Schedule A *status quo* for 1957–58 and subsequent years, i.e. the poor-rate value in force immediately before that year is to continue to be

the measure of the Schedule A assessment. There is provision for alteration where the Inspector considers that the poor-rate value would have been altered independently of any general revaluation.

Section 13 of the Finance Act, 1956, permits a deduction for contributions to the House of Commons Members' Fund. Clause 19 of the new Bill makes it clear that periodical payments made out of the fund are to be taxed under Schedule E.

Clause 20 extends the field of small maintenance payments from which tax is not to be deducted (Income Tax Act, 1952, Sections 205–6). Hitherto the maximum amount for a woman has been £2 unless the order was made under the Summary Jurisdiction (Married Women) Act, 1895, Section 5 (c), when the maximum is £5. Now, the lower maximum of £2 has been replaced by £5. Similarly in the case of children the smaller maximum of £1 has been raised to 30s and the age limit is raised to 21, for all cases.

The changes do not affect payments due before April 6th, 1958, unless the order is made or varied after August 3rd, 1957. This date is presumably chosen as the date when the Bill will have come into force as an Act.

Clause 21 has been described as being of particular importance to colonial territories which, on attaining independence, will be setting up central banks of their own. If a territory outside the United Kingdom decides to keep its foreign exchange reserves in the United Kingdom then an Order in Council can be made under clause 21 exempting those funds from income tax in so far as the income consists of dividends paid out of the public revenue of the United Kingdom. The exemption will in form be in favour of a non-resident bank entrusted by the territory in question with the principal foreign exchange reserves of the territory.

Customs and Excise

A new clause (clause 6) was inserted in the Bill on the report stage. This gives to each House of Parliament the power to annul statutory instruments made by the Board of Trade under the Fifth Schedule to the Finance Act, 1933. This Schedule concerns the determination of the country of origin of imported goods, for the purpose of Imperial Preference.

(To be continued.)

THE CAUSE AND CURE OF INFLATION

by W. L. B. FAIRWEATHER, C.A.

The Cause

AS the problem of the twenties and thirties was deflation and under-production, so the problem of the forties and fifties has been inflation and misdirected production; mis-directed because we have been spending too much of our income on consumption and social services and too little on home and foreign investment.

A generation ago we were the world's largest creditor nation with a very substantial income from overseas investments of the order of £500 million in terms of present-day pounds. Today we are without doubt the world's largest debtor on short-term account with a negligible net income from overseas investment. Yet whereas twenty years ago we were, as a nation, economy-minded to a degree that, looking back, seemed lunatic, we are today prodigal spenders to a degree that has made the pound one of the more suspect of currencies and is a threat, so long as it lasts, to the economic integrity of the British Commonwealth.

The Virtues of Thrift

Our grandfathers were not mistaken when they emphasized the virtues of thrift. They were only too conscious of the great demand for capital which the industrialization of Britain had brought into being, and of the dangers to the stability of the pound if these demands were not matched by an equal amount of saving. It was their sons and grandsons who were foolish, when in quite different conditions – conditions of expanding output, the fruits of earlier investment – they attempted to apply the economic precepts of their fathers and grandfathers. Now, their greatgrandsons in conditions broadly similar to those which faced Victorian Britain (when we were building our railways and our steelworks, expanding our textile industries and laying the foundations of our modern engineering and chemical industries) are applying, equally inappropriately, the lessons learned by their fathers almost at the moment when they had ceased to be applicable.

Who is responsible for this? The escapists, who are always with us, like to blame world economic conditions. We are living, they say, in an inflationary world as assuredly as we were living in a deflationary world a generation ago. There is an element of truth in the contention, but it is no more than an element. If we were importing,

rather than exporting, inflation, our exports would be rising faster than our imports and we should not be beset as we have been, year in and year out, by difficulties in paying our way on foreign account. Sterling would not, relative to other currencies, be a weak one, but would be one of the strongest currencies. The element of truth in the contention, and it is not entirely without importance, is that it is very difficult for any currency to keep its internal purchasing power in terms of goods and services, while world currencies generally are losing their purchasing powers. The fact unfortunately, is, however, that the British pound is in the lead, rather than in the rear, in losing its value amongst the principal currencies of the world.

Others like to blame the electorate. No Government, they contend, would survive an election which gave to public retrenchment the emphasis which it deserves. Again, there is an element of truth in the contention, but the element reflects no credit on those who aspire to the responsibilities of Government.

The Government has a duty to instruct as well as to govern and the path of duty requires that it openly admits that it cannot divide a larger national product than there is to divide. If the electorate want expensive social services, greater educational facilities and improved pensions for the old, they must be prepared to give up something for them. An expanding output assures that they will get more of everything in time, but they cannot have more of everything now. When they attempt to do so the result is a scramble in which the things most needing to be done may be overlooked, and those who have saved and have therefore contributed to such economic order as remains, get robbed. One day, even they will become discouraged. Then we shall know – as many other countries before us have learned from hard experience – what a horror, once the last restraints are removed, inflation can be.

Primary Responsibility Rests with the Government

The real truth is that the primary responsibility for the persistence of inflation, rests with the Government and with no one else. The Government has the means to check the malady now. The only doubt is whether it has the will or a sufficient understanding of the problem to make use of the means.

Shortly after the war, a prominent trade unionist diagnosed the country's problem as one of too much money chasing too few goods. After ten years that, in a nutshell, is still our problem and the reason for it is that, aided and abetted by the Government, we are trying to maintain a level of consumption which is excessive in relation to the productive resources at our disposal.

A high level of demand for consumption goods promotes a high level of demand for investment goods. A high level of demand for consumption goods also involves a low volume of savings. A high level of demand for investment goods and a low volume of savings leads to inflation or a rising level of prices, if the deficiency of savings is met by the creation of new money.

The Deficiency of Savings

We have been, and still are, meeting the deficiency of savings by the creation of new money. Were we still on the gold standard (and the gold standard had the one great merit of preserving the integrity of money), the public's increased demands for notes, resulting from inflation, would have reduced the Clearing Bank's cash holdings. This would have forced them to reduce their loans or alternatively sell part of their holdings of Government securities. The result would have been a rise in interest rates considerably greater than that which has so far occurred, and a cutting down of investment demands to a level more in line with the supply of savings. But we are not on the gold standard and the Government (which now controls the Bank of England), rather than face a modest business contraction, has reinforced the inflation begun by the scale of its own spendings, by raising the fiduciary note issue each year by amounts approximating to £100 million per annum.

Since 1951, the fiduciary note issue has risen by over £500 million or by nearly 40 per cent. When it is realized that the total cash held by the banks on which the entire credit structure of the country rests is in the region of only £500 million, it will be seen to what extent, in spite of higher Bank rates and a measure of credit stringency, the Government has been allowing the banking system to fortify the inflation for which its own financial activities were in the first place responsible.

That said, however, we should probably all agree that the Government would have been wrong in the circumstances to apply the rigid rules of the gold standard. Investment would have been the main casualty and for a time at least the cost of servicing the National Debt and

financing the borrowing needs of the Government would have been excessive. It may, indeed, be argued that in recent years the Government has placed too much reliance on monetary policy by way of high interest rates and tight money to achieve what containment of inflation it has achieved and not nearly enough on its annual or on occasion, semi-annual, Budget.

If inflation is to be avoided and a higher level of employment is to be preserved, consumption must proceed at the pace of consumption output: giving competition a chance to work and saving must, by the same token, proceed at the pace of investment. Saving will not proceed at the pace of investment if consumption is being over-stimulated, because if consumption is being over-stimulated investment (to provide future consumption goods) will also be over-stimulated. In the result there will, as we have seen, be a deficiency of savings which can only be made good by an expansion of the supply of money, i.e. by inflation. The remedy for such a situation is to remove the influences which are over-stimulating consumption and that means in practice tougher Government budgeting.

The big difference between conditions now and conditions in the deflationary thirties is the much larger share of total spendings now undertaken by the Government, and the fact that a large part of the increase (social expenditures) is being spent on behalf of people who do not normally save significant amounts and is being financed by taxation on individuals and companies who have normally done the bulk of the saving required. The result has been the imparting of a very strong bias in favour of consumption and investment and the imparting of an equally strong bias against saving, sufficient to transform a basically deflationary economy into a basically inflationary one.

The Cure

To deal with the situation, if the Government is of a mind to do so, there is only one alternative and that is to aim at a very much larger Budget surplus than it has yet considered feasible. In this way it will force people to save what they are not prepared now to save voluntarily. Broadly, there are four ways of increasing the Budget surplus:

- (1) To raise taxes all round. In this event, some of the advantages will be lost by taxing those in the higher income groups who are already making the maximum contribution they are capable of making, to saving. There will be the additional disadvantage

that it will involve adding to the already excessive tax burdens of those who are shouldering the main risks of enterprise.

- (2) To raise taxes selectively. Undistributed company profits are the largest single source of savings today, accounting for approximately 50 per cent of the total. Within recent years, companies have been eating into this source by stepping up their dividends. The Government could halt, if not reverse, this process by increasing further the tax on distributed profits, coupling the increase with a decision to abolish the present 3 per cent tax on undistributed profits. The undistributed profits tax is a tax on saving, the distributed profits tax, a tax on spending; it is spending, not saving, we want to discourage.
- (3) To make the public bear a much larger share than it is now bearing of the costs of social insurance and other welfare benefits.
- (4) To make substantial expenditure cuts which will mean, in practice, cutting social expenditure.

Sacrifices Worth the Making

Each of these courses raise their own particular difficulties, but any sacrifices made – and they will be apparent rather than real – will be well worth the making for the end of putting this country once again on a sound economic footing.

There remains the question of the size of the increases in taxes or as the case might be, of the

cuts in expenditure. It may be considered disappointing to have to admit that it is impossible to give a precise figure. The figure could vary from day to day, from week to week, and from month to month, depending upon public psychology and business men's assessment of future economic prospects.

The important criteria are that the figure must be big enough to put an end to the economy's present strongly inflationary bias; that it must be made clear that the object is not to check economic expansion, but to check inflation, or if you like, uneconomic expansion; and that any miscalculation can be quickly corrected by an appropriate use of monetary policy.

Whether the Government likes it or not, it is 'in the business' of promoting orderly economic expansion. As it is 'in the business' it will have to learn to take risks and take the right ones, for if it does not, the wrong ones will be taken. The gold standard, while it lasted, saved the Government from having to bother about the integrity of money, and the mythology associated with it encouraged a fatalistic belief in the Government's inability to intervene effectively in the economy. All that is now past. The Government is now intervening on a considerable scale to which the change in conditions over the past twenty years testifies. It is for the Government to see now that in doing so it does more than promote employment. It must also prevent the abuses of inflation which can be as harmful as the unemployment of the twenties and thirties.

PROTECTING AN ACCOMMODATING PARTY

by PETER ELMAN, M.A.

ALTHOUGH basically solvent, X. Ltd was in serious immediate financial difficulties and unable to meet its current liabilities as and when these arose to be satisfied. In particular, the company was being urgently pressed for payment of arrears of profits and income tax, and intimation had been received of the possibility of the Inland Revenue presenting a petition for winding-up the company. There was, however, someone who was prepared to come to the assistance of the company and advance sufficient money to satisfy the Inland Revenue, in order to prevent immediate liquidation. But that person naturally wished to be suitably safeguarded in case the company was wound up on the petition of a creditor other than the Inland Revenue. How and to what extent could repayment of the advance be secured, if at all?

There appear to be two means by which the required protection in these particular circumstances can be effected.

It should be noted that the Inland Revenue debt which needed to be met at once would, in the event of a liquidation, be a preferential debt, at least to the extent of one year's assessment, in respect of the period up to April 5th before the date of winding-up (Section 319, Companies Act, 1948). The Inland Revenue, it may also be recalled, could choose and claim priority for any year (see *Gowers v. Walker*, [1930] 1 Ch. 262).

Subrogation

Section 5 of the Mercantile Law Amendment Act, 1856, enables, *inter alia*, a surety who pays a debt to stand in the place of the creditor and to use all the remedies of the creditor in any action

or other proceeding in order to obtain from the debtor indemnification for the payment he has made.

By virtue of this principle of subrogation, therefore, where a surety pays a preferential debt he is entitled to stand in the shoes of the creditor and claim such priority as the creditor would have had in respect of the debt so paid.

The principle has been applied to company winding-up. In *Re Lamplugh Iron Ore Co Ltd* ([1927] 1 Ch. 308), proceedings had commenced against the company for the recovery of arrears of rates. The company having asked one of its directors either to pay or guarantee the payment of these arrears, that director had by letter to the rating authorities guaranteed the arrears and eventually paid them. In a subsequent voluntary winding-up of the company, the director successfully asserted his right to priority. Although there is no decided case applying Section 5 of the Mercantile Law Amendment Act, 1856, to other preferential debts, there is nothing in principle which confines its application to arrears of rates.

Section 319 of Companies Act, 1948

It is true that Section 319 (4) of the Companies Act, 1948, gives the right of subrogation to anyone who advances money to a company for the purpose of paying wages and salaries to the extent that such wages or salaries are preferential. It might, therefore, be argued that this express provision implies the exclusion of any other right to subrogation (*expressio unius est exclusio alterius*). This rule of construction, which in any event must be used with great caution (see, e.g. *Colquhoun v. Brooks* (1887), 19 Q.B.D. 400), obtains usually when a number of things are enumerated. In such a case, the law may assume, but even then not necessarily, that all the desired provisions have been included.

In the present instance, the express provision could not by implication exclude the right to subrogation which arises under a different statutory provision or legal principle.

The contrary argument would involve the proposition that Section 319 (4) of the Companies Act, 1948, has by implication repealed Section 5 of the Mercantile Law Amendment Act, 1856, and this is against the rule that unless two Acts are so plainly repugnant one to the other that effect cannot be given to both at the same time (which is clearly not the case here), a repeal will not be implied (*Kutner v. Phillips*, [1891] 2 Q.B. 267, 272). Moreover, while Section 319 (4) of the Companies Act deals with a payment,

Section 5 of the Mercantile Law Amendment Act deals with a surety. This difference in kind in the nature of the transactions is a further reason for saying that the later statutory provision does not exclude the earlier.

Charge on Company's Property

The second method is the straightforward one of lending the company the required amount on the express condition that it is used to pay off the Inland Revenue debt, and in consideration therefore taking a charge on the company's assets.

Such a charge can be either a fixed or floating debenture. In the case of the latter, there is the danger that under Section 322 of the Companies Act, 1948, the debenture might be invalidated if the company goes into liquidation within twelve months from the creation of the debenture. But the danger is remote. Section 322 does not apply, *inter alia*, where money is actually paid to the company at the time of the creation of the debenture.

Nor is it fatal that the payment is made conditional as to the mode of its application. Payment to the company is for this purpose a question of substance and not of form. A payment to the company on condition that the money is to be employed to extinguish an existing liability in order to enable the company to continue in business, is good for the purpose of the section (*Re Matthew Ellis Ltd*, [1932] Ch. 458). The test is whether the transaction is to be regarded as one intended bona fide for the benefit of the company or merely to benefit certain creditors to the prejudice of others (*Re Destone*, [1941] Ch. 319). In other words, it must not be illusory in that the other creditors are in a worse position after the creation of the debenture than they were before. It is obvious that in the given circumstances this is not the case.

Of the two methods outlined above, the second has two clear advantages. In the first place, where only part of the debt paid off by the accommodating party would be preferential, the first method would give priority to that part only and as to the balance, the surety would have to prove as an ordinary creditor. In the second place, if the company did not go into liquidation but continued to trade, under the first method the surety in the event of non-payment would have little or no security but only the usual remedies of an unsecured creditor, whereas under the second method the charge on the company's assets preserves the strong position of the debentureholder in respect of his loan to the company.

TRAINING FOR THE PROFESSION—I

by W. E. PARKER, C.B.E., F.C.A.

Introduction

WHENEVER Institute members or their articulated clerks meet together in conditions conducive to general discussion, no subject comes up so often or provokes debate so readily as, in one form or another, that of training for the profession. Rightly so. On the training of its intake depends in large measure the future performance of the profession and the value of its contribution to the community; on that performance and contribution depends the profession's status; and on that status depends the quality of its intake. Here is a circle which could quickly become vicious if the standard of training falls short.

(2) Nor is the question of training a static problem for which any one solution, or combination of solutions, will necessarily hold good for all time. The means and standards of general education, the standards and scope of the profession, the nature, quality and extent of the needs which the profession serves—all these are changing factors which call for continuous review. Much has changed since Mr Justice Quain in 1875 deplored as 'one of the grossest abuses ever introduced into the law' the handing over of affairs in bankruptcy 'to an ignorant set of men called accountants'. Since then the size of the profession, as measured by the membership of the main accountancy bodies, has grown some fifty-fold; and the work of the profession has evolved and changed its emphasis in the manner thus aptly described by Mr Gilbert Shepherd:

'Accountants' work was in the first instance that of *undertakers* to the business world in the capacity of liquidators and receivers in bankruptcy. From the duty of giving corpses a decent burial accountants passed to the next stage of development, that of *physicians* keeping the body economic in sound financial health. Finally the constructive stage is being reached with accountants as *builders* assisting the promotion of economic effectiveness.'

(3) Discussion of professional accountancy training derives freedom and stimulus from the fact that so few can claim to be either expert or unprejudiced on

The first part of an address delivered on July 12th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

the subject. There are some (for example, professional accountants holding educational appointments in universities and colleges or taking part in the direction of coaching institutions) who in varying degree can see the problems from the standpoint both of the educationalist and of the practical accountant. But for the most part argument in the broad field tends to

reflect the views of those on the one hand whose profession is education and those on the other whose profession is accountancy. Within the narrower field of the accountancy profession itself the discussion takes place between practical accountants of widely varying professional backgrounds, trained in and conducting their professions in all sorts of differing circumstances; in industry, in professional firms; in big cities, in little towns; in large organizations and in small ones. For each the approach to training problems is almost inevitably coloured and conditioned by his own particular experience and environment.

(4) And if further stimulus to discussion were needed, it has been provided since the war first by the inquiry and report of the Government's (Carr-Saunders) Committee on Education for Commerce, and more

recently by the reports in America of the Commission on Standards of Education and Experience for Certified Public Accountants and in Britain of the Scottish Institute's Special Committee on the Examination and Training of Apprentices.

I. OFFICIAL VIEWS

The Carr-Saunders Report

(5) The Carr-Saunders Committee seems to have envisaged professional accountancy as one of a number of 'commercial' pursuits (including, among others, wholesale and retail trade, export and import trade, transport and shipping, and even shorthand and typewriting) for which in many subjects a common syllabus could well be adopted. For these subjects, and such others as might have to be accepted as peculiar to the particular branch of 'commerce' concerned, the committee thought that training should be provided on a regional basis by the development of courses in technical colleges. Up to the stage of the Intermediate examination only general



Mr W. E. Parker

commercial subjects should be studied, and the courses, both for the Intermediate and for the Final examination, should be attended on a part-time basis during the working day, sandwiched in between spells of 'work on the job'.

(6) I would expect most members of the English Institute to agree that for chartered accountants the main value of the Carr-Saunders recommendations was that they provoked a forthright and comprehensive statement of the Council's own views on the subject as affecting Institute members. The statement *Education and Training for Membership*, published in March 1951, was prefaced by the following observation:

'Whatever merits the recommendations of the Carr-Saunders Committee may have in relation to other occupations – a matter with which the Council of the Institute is not concerned – the Council considers that they have no place in the education and training for membership of the Institute.'

The Expressed Views of the English Institute

(7) Since the Council's statement itself is now out of print it may be as well for the purpose of this paper to restate some of the key-notes.

On general educational background

(8) 'A high level of general education is . . . a prerequisite to the commencement of professional training. The standard of the (Preliminary) examination is approximately that required for university entrance.'

(9) 'The Council attaches importance to university education and encourages the entry of graduates into the profession. The chief importance attaching to graduation is the liberal education acquired in the university.'

(10) 'The degree courses under the (combined articles and university) scheme . . . are of a more vocational nature than courses of study not connected with the accountancy profession. Nevertheless . . . the degree course is not intended as a vocational training course, in spite of its accounting emphasis. It is still essentially a university degree course.'

On the necessity for practical experience

(11) 'Admission to membership of the Institute can be gained only by serving under articles and by passing the Institute's professional examinations. These fundamental requirements are . . . designed . . . to ensure that membership is granted only to persons who are fit to assume the heavy responsibilities falling upon chartered accountants.'

(12) 'The purpose of . . . service (under articles) is to enable the (articled) clerk to obtain the practical experience necessary to acquire the art and knowledge of a chartered accountant in practice as a public accountant. A person cannot be a chartered accountant unless he knows how to do the work of his profession and this knowledge can be acquired in one way and one way only – by learning as an apprentice under the guidance of others. A person might be a brilliant theorist and yet have no hope whatever of being able to succeed in practice as a chartered accountant.'

On the particular relevance of articles

(13) 'The Institute's requirement that service must be under articles is not a mere formality. This fundamental requirement ensures that the clerk's intention to become a chartered accountant is recognized at the outset, so that throughout the term of service his work, experience and studies can be arranged with that object in view. This is a very different matter from merely requiring a specified period of practical experience, which could be claimed by anyone who decided to obtain an accountancy qualification after being employed in an accountant's office for several years. The system of training under articles should be regarded as a composite whole, having three main aspects – practical training, theoretical study and wider education.'

(14) 'The first year of service is a particularly important one, not from the point of view of the acquisition of theoretical knowledge or the extent of the practical experience obtained, but for ensuring that the articled clerk is approaching his future career with the right outlook.'

On the method of acquiring knowledge

(15) 'A vast amount of knowledge is required by a person who wishes to be a chartered accountant. For the purpose of acquiring that knowledge there is no substitute for solid private reading.'

(16) 'Articled clerks cannot expect to achieve success . . . unless they are prepared to devote a considerable amount of spare time to private study.'

On flexibility and freedom of choice

(17) 'The flexibility of the training arrangements is considered to be an advantage to both students and the profession. The articled clerk is free to make his own choice of principal . . . (and) . . . to choose his own method of obtaining theoretical instruction whether this be entirely unaided, or with the assistance of a private tutor, or by attendance at a technical institution, or (as in the vast majority of cases) by correspondence tuition.'

On wider education

(18) 'Wider education in its fuller sense, as distinct from the breadth of purely vocational instruction and experience, forms an important aspect of an articled clerk's education. Students' societies arrange meetings, debates and social functions of a cultural nature, designed to broaden the views of articled clerks and to afford them opportunities of meeting each other and discussing their problems and experience. . . . Further, in the ordinary course of their professional experience, articled clerks are working with principals and senior clerks and come into contact with a wide variety of businesses. . . . The whole atmosphere of training is therefore one in which there exist ample opportunities for an articled clerk to develop his sense of responsibility and to acquire an understanding of his fellow men and a breadth of knowledge which few professions can offer.'

(19) The statement concluded with a summary of what the Council considered to be the right ingredients in the training of chartered accountants of the future.

'(a) A sound technical knowledge of the principles underlying all the work of the profession.

- '(b) A working knowledge of the law which affects the work of the profession.
- '(c) The widest possible practical experience of the application of those principles and legal requirements.
- '(d) An understanding of the ethics of the profession, which can be appreciated fully only by gradually absorbing the atmosphere of the professional office.
- '(e) The widest possible education in a broader sense than the strictly vocational training and experience implied by (a) to (c) above.'

(20) These excerpts from the 1951 statement on *Education and Training for Membership*, part of which are preserved in other Institute publications, give a clear picture of the pattern of education and training which the Council thinks best suited for chartered accountants. The emphasis is on the background of a liberal, not a specialized, education; on the subsequent acquisition of the specialized theoretical knowledge by private study (with freedom to the pupil to choose for himself the manner in which that private study should be conducted and guided in his own particular case); on practical rather than theoretical training, on learning how to do the work rather than merely how it ought to be done; on the sense of purpose and of dedication implicit in and encouraged by the contract for service under articles; and on the development during articles of the pupil's character, his sense of responsibility and of ethics, and his experience and understanding of affairs and of human beings.

The Report of the American Commission

(21) It is interesting to compare with this outlook the views expressed in the recent report of the Commission in the United States on 'Standards of Education and Experience for Certified Public Accountants'. Bearing in mind the American partiality, as opposed to the British reluctance, for specialization, we may note particularly the following observation on general educational background:

'Technical training and competence are essential, but the profession is gradually accepting the idea that, in addition, academic training in broad cultural areas is important to the development of the individual. The flexibility of thought and moral integrity which may be developed (thereby) . . . are needed in assuming the responsibilities involved today in public accounting engagements.'

(22) Following from this, the Commission's first recommendations are that students entering the profession should have graduated from a university and have then passed a 'selection' examination:

'The Commission considers that completion of a college program leading to the baccalaureate degree, which includes a substantial amount of general and cultural courses, is a necessary preliminary to further training for public accountancy. . . . The Commission recognizes the great value of an undergraduate curriculum concerned principally with cultural and liberal subjects.'

'The Commission recommends that a nation-wide

examination be devised which would test the college graduate's intellectual capacity, his academic achievements, and his aptitude for public accountancy. . . . The primary purpose of the examination is to assist . . . in selecting individuals who have the capacity and aptitude to undertake with benefit the training to be provided through the proposed professional programs.'

(23) While on the importance and value of general education the foregoing quotations reveal an identity of view with our own Council, on professional training (as distinct from general education) the majority of the Commission has very different ideas. Its recommendations on this are introduced with the following explanations:

'One of the principal problems with which the Commission has been concerned is whether the public would be best served if formal academic training were made the principal method of preparation for the profession. The trend in most professions has been to qualify, first through experience only, later through a combination of experience and formal educational training, and eventually through formal education alone. This dependence upon the formal educational process assumes that there is a communicable body of knowledge which can be effectively transmitted to students. The Commission believes that there is such a body of knowledge in existence today in the fields of accounting, auditing, taxes and other areas important to the Certified Public Accountant.'

'Primary dependence upon the formal educational process facilitates a logical division of preparation for professional practice into two distinct parts, one to be accomplished through the formal educational process . . . the other through practical experience acquired subsequently. The Commission believes that the overall training desirable for the responsible practice of public accountancy can be divided advantageously into these two segments. The first, that which can be appropriately assigned to the formal educational process, consists generally of the study of principles.'

'The Commission believes that the knowledge needed of the principles of accounting, auditing, taxes and other related areas of study, including a background knowledge of business administration, could be acquired effectively through the formal educational process.'

(24) Accordingly, the Commission recommends the establishment in the universities of postgraduate professional programmes and expresses the view that under present conditions twelve months appears to be their shortest feasible period. These programmes would represent an extension of university studies and would follow a minimum of a four-year period as an undergraduate. If those four years have not included studies of the basic principles in certain subjects of business (such as production, distribution, accounting), such studies must be accomplished through postgraduate work before the professional programme is undertaken.

(25) On practical experience (as distinct from

academic study) the views of the majority of the Commission are expressed as follows:

"The Commission recognizes the value of practical experience in the training of a public accountant, but it believes that from the long-run standpoint most of such experience should come after the individual has met the prerequisites for the profession through the formal educational process and satisfactory completion of the C.P.A. (final) examination. At the same time the Commission considers some exposure to actual accounting operations and procedures to be a highly desirable part of the formal education of an individual interested in public accountancy."

To provide this exposure to the practical side of the profession's work, the majority recommends that 'an internship of approximately three months should be included in the recommended professional programme'. This internship, which would be spent in an accredited professional firm, would be served during the second quarter of the postgraduate academic year (i.e. between December and April) and 'would permit the student to achieve the maximum benefit in his subsequent studies'.

(26) Having completed his postgraduate year (including the internship) and passed the C.P.A. examination, the majority of the Commission considers that the student should then be granted his C.P.A. certificate (comparable in Britain with admission to his professional body), with the intention that the significance of that certificate should come to be uniformly interpreted not as evidence of qualification to perform the practical work of the profession but 'as a mark of competence, obtained through the formal educational process, to enter the profession of public accountancy'.

(27) The opposing view is well expressed in the following passages from a statement by two of the dissenting members of the Commission:

'Ours is a practising not an academic profession. The public looks upon the C.P.A. certificate as a mark of competence in practice, not a licence to learn how to practise. To the public the C.P.A., young or old, denotes finished goods, not raw materials.'

"To substitute added schooling for experience is to make topsy-turvy of the wisdom of the past. Instead of recognizing experience as the best teacher, it regards a teacher as the best experience. It ignores the many short-comings of the class-room."

'We have a profound respect for schooling. We think extensive education is a prerequisite to modern practice. But no matter how closely classrooms may try to simulate reality, they do not and cannot reproduce genuine accounting life. For example, it is only in actual engagements that there is opportunity to observe, if not experience, the workings of time pressures, client pressures, and the many other forces that give trial and meaning to 'objectivity' and 'independence' - the mainstays of our profession.'

Even the writers of these comments do not, however, dissent from the recommendation of a postgraduate

academic year specifically designed to inculcate in intending professional accountants the principles of their profession: the dissent relates only to the omission after the academic year of a requirement of a further two years of practical experience before the C.P.A. certificate is granted.

(28) The root of the controversy reflected in and raised by the report is discussed in these words by Mr Arthur M. Cannon, C.P.A., at one time professor of accounting at the University of Washington:

"The basic issue underlying this report is one between the proponents of education and those of experience. Education and experience are not interchangeable, but they do overlap each other. The greatest value of experience lies in the education that may proceed from it; but education in its profoundest sense is a distillation of experience. Education prepares the beginner. Schools are places for children. One must leave school and live in the real world to acquire those virtues that we ascribe to experience. The devices of education and experience are limited and we try to make up for the deficiencies of one with some of the other. It takes both."

"On the basic argument as to the relative merits of experience and formal education as professional preparation, I question that either one of them has quite the merits that are claimed by their more ardent supporters. In either case it is the content and not merely the time spent that counts. Even more, it is the quality of the input that influences the quality of the output."

(29) Whatever view may be taken of the pattern of professional training advocated by the American Commission's report, it is worth while to note three of the problems with which the members of the Commission found themselves faced. Those problems, not peculiar to the United States, were:

- (1) The ever-widening scope and ever-increasing complexity of the services for which the community looks to the accountancy profession.
- (2) The limitations of time which make it imperative that young men, if they are to be attracted to the profession, should be able to complete their basic professional training and acquire their qualification within a reasonable span of years.
- (3) The consistently high proportion of failures in the professional examinations.

Recommendations of the Scottish Institute's Committee

(30) These same problems faced the Special Committee of the Scottish Institute which was appointed in February 1953 to inquire into the examination and training of apprentices. The following extract is taken from the statement issued to members of the Scottish Institute on behalf of its Council in October 1956:

"The continuously poor examination results . . . are clear evidence that under the present arrangements the majority of apprentices are not mastering the details of the subjects involved by the time they

have completed their apprenticeships. The widened scope of the examinations – necessitated by developments in the accounting field – has brought about a situation where the average apprentice can no longer by whole-time work in an office, supplemented by study only in the evenings and at week-ends, acquire the knowledge which he must have if he is to obtain his professional qualification at the end of his five-year apprenticeship.

'It has been suggested that a solution could be found either by reducing the standard and scope of the professional examinations or by lengthening apprenticeship to a period of, say, six years. The Council is strongly opposed to both of these methods of dealing with the situation. It feels that, if Scottish chartered accountants are to retain a leading place in the profession and to continue to serve industry and the public as in the past, there must be no lowering of the standard of the qualification for membership. On the other hand the Council feels that, if retention of that standard were to involve an extension of apprenticeship, recruitment to the Institute would be seriously affected, bearing in mind the incidence of National Service and the competing claims of other careers.'

(31) The proposals put forward by the Scottish Committee in February 1956 to meet these problems included the important and controversial recommendation that apprentices should take, normally during their third year of five, an 'academic year' of about nine months away from the office, during which they would attend prescribed university classes in law, economics and accountancy and at the same time read privately for the Institute's fourth and fifth year examinations. The reasons for the recommendation are explained by the Committee in the following terms:

'The Committee is convinced that practical training in the master's (principal's) office is as vitally important today as ever it was, but it is also convinced that the time has come for making a new approach to the problem of the apprentice's theoretical study. With the passage of time and the expansion of the syllabus, a stage has been reached, in the Committee's opinion, where the combined strain of office work and class study is excessive. The Committee has reached the conclusion that means must be found of allowing apprentices facilities for theoretical study when their minds are fresh. This means that they must be allowed more time for study either piecemeal during office hours or by way of a period of absence for full-time study. Having fully considered these alternatives, the Committee is satisfied that the second is much preferable.'

This proposal must be viewed by English chartered accountants against the background of the existing training arrangements in Scotland which for many years have included compulsory attendance at university or other prescribed classes. The proposal represents, however, an interesting bridge between the existing arrangements in England and Wales and the recommendations of the American report already referred to.

Time for Theoretical Study under the English Institute's Arrangements

(32) The recognition by the Council of the English Institute of the particular problem of finding enough time for the requisite theoretical study is shown in the provisions of bye-law 58 which allows for up to twelve months of study leave over the whole period of articles. The Council's attitude was more specifically expressed in the following part of a statement issued by the Council in August 1948.

'For the purpose of studying for the Intermediate examination an articled clerk should be granted a total period of up to three months' leave from office duties, including the period allowed immediately prior to the examination; and a similar period should be granted in respect of the Final examination. In making this recommendation, the Council wishes to emphasize the reasons why such time should be allowed for study purposes, in addition to facilities for attendance at lectures and students' society meetings:

- (i) An articled clerk should not be expected to do the whole of his extensive preparation for examinations during the evenings and week-ends.
- (ii) During service an articled clerk should not find it necessary to abandon healthy sports and outdoor pastimes in which he may be interested.
- (iii) An articled clerk should not confine his studies solely to the examination requirements but should be encouraged to read as widely as possible and to think for himself.'

(33) How much time in total needs to be devoted to theoretical study must depend on the individual, whose speed in assimilating knowledge will be governed by many different factors, his natural ability, the maturity of his mind and the manner in which it has been trained in his general education, the method in which he tackles his studies, the enthusiasm or sense of urgency which he feels, the degree of fatigue induced by his office work in the daytime, the bearing of that work on his theoretical studies, and many other matters. My own impression, however, is that for the articled clerk of normal but not outstanding ability who wishes to be reasonably certain of passing the English Institute's examinations within five years, something over 3,000 hours of homework (including pre-examination revision) is not nowadays an excessive estimate of the time required.

(34) What proportion of the total study-time should be provided by leave of absence for that purpose is a debatable question, and again may well vary for different individuals and for different types of practices. My own inclination is to believe that, over and above Saturday mornings, generous holiday leave, and the incidental leave for attending lectures and short courses, a full three months of special leave (preferably taken in two six-week instalments) may now be needed for *each* of the two examinations by the vast majority of articled clerks, and especially

by those who are serving only for the three-year period. On the assumption that six months in all of 'special' study leave would provide some 750 hours of effective study (I do not think intensive study of this kind can be maintained usefully for more than about thirty hours a week) my estimate would still leave 2,250 hours for the remaining four and a half years - an average of 500 hours a year or, excluding holidays, occasional sick leave and other interruptions, rather more than eleven hours a week on top of full-time work in the office. To maintain that average steadily for five years is a heavier task than many might think, and I believe that it represents as much continuous 'overtime' as the normal young man can be expected to devote profitably to the assimilation of theoretical knowledge. This, however, is very much a personal view. There are others who feel strongly that for either of the examinations three months of special leave in addition to the other absences I have mentioned is excessive and not in the best interests of the articled clerk. Those who take this view feel that so much leave not only makes a serious inroad into the time available for gaining practical experience but is also too long to enable the clerk to make full use of the study time without getting stale or failing to prepare and work to a plan of study or without succumbing to distractions. There are also strong views that articled clerks should be able to study effectively for forty (rather than thirty) hours a week during special leave and should be able to average sixteen (rather than eleven) hours a week of spare-time study.

The Problem of Evaluating Practical Experience

(35) I mentioned above three problems which impressed themselves strongly on both the American Commission and the Scottish Committee to whose recommendations I have referred. There is also a fourth problem, and a major one, which both encountered, namely, the difficulty of prescribing a significant general standard of practical experience and of evaluating against that standard the actual experience of the particular individual. In the Scottish report the problem is touched on only briefly and in passing:

'As in every other profession, there is a continual extension of the field of study. . . . It was always true that in very few master's offices could every apprentice gain experience of every aspect of the work of a practising accountant, but with the widening of the scope . . . it has become more than ever impracticable for the whole field of study to be covered by an apprentice's practical training.'

(36) In the American report, however, it is discussed at considerable length, the following being representative passages.

'At the present time, those jurisdictions requiring accounting experience consider principally the duration and type of employment. These factors are not sufficiently discriminating in and of themselves

to serve as criteria in measuring the value of experience to the potential C.P.A. It is possible for an individual to be employed in public accountancy for several years without participating in such important aspects of practice as the development of audit programs or the drafting of audit reports. In contrast, he might with different assignments participate in such activities after only a few months of employment. It seems reasonable to conclude that duration of experience does not represent the most appropriate measure of what should be required as a prerequisite to qualification. Another problem relates to the nature of the practice of the employing firm. It is apparent for example, that employment by a firm which does only monthly book-keeping or write-up work can contribute little to the development of ability in application of auditing procedures, the preparation of audit reports, or the development of an independent objective attitude. Specialization of the employing firm, by type of clientele, may also limit the variety and breadth of the employee's experience. The training practices of the employing firm may also have considerable effect upon the value of accounting experience.'

'Experience is too often measured in terms of elapsed time. Actually, the mere passage of time may be a very poor way of measuring the variety, relevancy and depth of experience of an individual. Experience consists of a series of highly personalized events which may have meaning and importance only to the individual. Consequently, experience of any type is difficult to test or evaluate. Furthermore, the professional man's stock-in-trade includes such abilities and characteristics as intellectual capacity and development, character and integrity, imagination and judgment, much of which is developed through experience. It is difficult to devise examination questions which test such qualities and wellnigh impossible to appraise the answers uniformly and fairly.'

'It is wellnigh impossible to define a uniform type of experience which every C.P.A. should have. It is also impracticable to attempt to evaluate the experience of thousands of candidates.'

(37) That the problem of ensuring adequate practical experience before admission is well recognized by our own Institute is evidenced in the covenants imposed on the principal by the Deeds of Articles, in particular:

'That to the best of his ability and power he (the principal) will either personally or through his partner or partners or his senior assistants engage the articled clerk on such work and afford him such opportunities and experience as are necessary for the purpose of enabling the articled clerk to acquire the art and knowledge of a chartered accountant in practice as a public accountant.'

'That his professional practice as a public accountant is his main occupation and is suitable for the purpose of enabling him to perform the last-mentioned covenant.'

(38) These covenants are buttressed on one side by the power of the Institute to refuse to register articles where it is not satisfied that the principal can or will fulfil these covenants and on the other by the terms of

the certificate of service required from the principal in support of the articulated clerk's application for admission to membership. The principal has to state, among other things, that he considers the applicant 'a fit and proper person to be admitted an associate of the Institute' and has to support that statement with particulars of the articulated clerk's service. He must show how much of the total period of articles has been spent in each of the various ways permissible; he must indicate the full scope and nature of the duties performed; and he must 'state as precisely as possible the kinds of work on which the applicant has been engaged (such as accountancy, auditing, taxation, insolvency), the types of businesses concerned (such as sole traders, partnerships, limited companies), and the level of seniority at which the work has been carried out'. To the conscientious principal the responsibility of recommending an applicant for admission and the completion of the related certificate give cause, as they should do, for careful and anxious consideration. I know personally of one case in recent years in which on the question of practical experience a principal felt obliged to defer by six months his certificate for a candidate who in all other respects was eligible for admission. The principal did not consider that the applicant had sufficiently 'well and faithfully served his clerkship' to make him, without further practical experience, a 'fit and proper person' to be admitted.

(39) In addition to these formal covenants and regulations in relation to articles and the subsequent application for admission to Institute membership, the Council drew emphatic attention in its statement of February 4th, 1948, to the importance of a proper planning of articulated clerks' experience.

'It is essential that an articulated clerk's duties should be properly planned in order to afford him

the requisite opportunities and experience, of which a statement from the principal is required in due course in support of the clerk's application for admission to membership. So far as practicable he should be engaged on all types of work passing through the office, in such a manner as will enable him to obtain the maximum benefit having regard to the stage reached in his training.'

(40) How far guidance of this kind, coupled with the obligations imposed on principals and their own sense of responsibility to the Institute, the profession and the public, really secures an adequate general standard of practical competence on the part of applicants for Institute membership must be a matter of opinion and to some extent of conjecture. Rightly or wrongly, however, the Council evidently regards the Institute's examinations as tests of practical competence as much as of book learning. The following quotations are taken from the memorandum submitted in June 1947 to the Carr-Saunders Committee.

'The examinations . . . are specially designed to ensure that, before admission to membership, candidates have reached a standard of knowledge and competence sufficient to enable them to undertake the responsibilities of chartered accountants.'

'With the exception of one of the legal papers in the Final examination, the examiners are all experienced members of the Institute, actively carrying on their profession, since it is considered essential that the examination papers should be related to what is experienced in practice.'

'The examinations are not designed to test the mere working of a set curriculum. It would be difficult to say which is more important, practical experience or theoretical study; a combination of the two is essential and the examinations . . . are designed to test the candidate's progress and ability as a whole.'

(To be continued.)

Weekly Notes

Cheques Act, 1957

Mr Graham Page's work on endorsement reform reached completion on July 17th when his Cheques Bill received the Royal Assent. The new Act comes into effect three months after the Royal Assent, and during that time the banks have to agree on the rules they must make for working the new system.

In the debate on the report stage in the House of Lords, Lord Chorley, who was a member of the Mocatta Committee, expressed disapproval of the Bill in as far as it differed from that drafted by the Committee: he feared that it would make it possible for the banks to do without endorsements on cheques paid over the counter and on cheques paid into accounts other than those of the payee. Reform has almost unanimously been directed only to those cheques that are paid into the account of their payees – the vast majority – and the Mocatta Com-

mittee attached importance to the retention of endorsement for the other uses of cheques. Lord Chorley sought to amend the Bill, but the House accepted the Government's assurance that in fact the banks would still have to call for endorsements on the cheques in question.

It still remains to be seen what will happen to the receipt-endorsement. It will be remembered that the banks have undertaken to continue to allow such receipts to be used by arrangement with individual customers, a distinguishing mark being printed on the face of cheques carrying such receipts, to warn the banks that their backs need to be examined. It is to be expected that the banks will seek to keep their use to a minimum; and it may well be that pressure for their retention will not be so great as was expected in the earlier discussions of the Bill. The Mocatta Committee pointed out that a

paid cheque can be as good *prima facie* evidence of payment as a receipt, and the example of the businesses that have already given up receipts for cheque payments altogether may be persuasive to others.

Gilt-edged Market Survey

The firm of City stockbrokers which produces, for private circulation, a complete record of the fortunes and misfortunes of the gilt-edged market has brought its noble chronicle down to the end of 1956 with the recent publication of a third supplement to the second edition of the work. Two new features have been added. One is a diary of financial and political events to be read in conjunction with the charts of net price changes. The other comprises a section analysing market movements in the light of the seven changes in the Bank rate since November 1951. Both help the reader, bemused by the array of switchback statistics, towards a clearer understanding of the causes and significance of the fluctuations in values and yields over the period.

In an urbane preface to the new supplement, the compilers disassociate themselves from the present pessimistic view investors are taking of the future of British Government securities. They suggest that the downward trend will be halted and reversed when an improvement in the national economy is brought about by greater productivity and increased savings. There is nothing original in this diagnosis, but it is a vital truth which must be constantly restated until it is realized by every single person who has something to contribute to the nation's well-being. Investors do not themselves create periods of prosperity or depression but they reflect, by their choice of investment, the strength or weakness of the country's financial standing. The market performance of British Government securities over the past twelve eventful years, as tabulated in this excellent survey, demonstrates that the gilt-edged and equities markets are inter-dependent and that both must be well supported if a sound financial equilibrium is to be maintained.

Ratification of the Common Market

Formal approval of the European Common Market has now been given by France, Germany and Italy. The reception of the idea was much warmer in the Italian Chamber of Deputies when the Treaty of Rome came up for ratification than in the case of France and Germany. The reasons are not far to seek. Italy enters the Common Market with distinct advantages. It has comparatively cheap labour, low social charges and a reserve of technical and unskilled labour.

It is as certain as these matters can be that the Belgians and Dutch will ratify the treaty and before long the European Common Market will have become a political and economic reality. The next move is expected to be increased diplomatic activity this autumn on the subject of the free trade area. Drafting a document for this latter scheme has already

gone some way, using the Treaty of Rome as a starting-point. The big problem is still how to negotiate the first diplomatic hurdles. These consist of the problem of certificates of origin of goods from outside the free trade area, the harmonization of wages and the elimination of double-pricing. Even when formulas have been successfully negotiated at the diplomatic level, industry (not least in this country) has to be persuaded that the formulas are workable and that they will be put rigorously into operation with adequate provision for inspection and checking.

Record Australian Export Income

The possibility that this country's exports may reach record levels this year is dependent to a large extent on the degree of prosperity in the United States and Australia. In the United States, although there is some unevenness as between different industries, the boom which was generated in the spring is holding up well. In Australia there is every indication that the close of the financial year at the end of June will have produced a record result for Australian exports. It is expected that the Dominions export income will be over £A1,000 million.

The prosperity which is gathering momentum in Australia and the favourable short-term effect this will have on British exports must not completely obscure the long-term trend for that market to become increasingly competitive. The Australians have made it quite clear in the recently-signed trade agreement that they propose encouraging imports from as many sources as possible. It cannot be taken for granted any longer that the Australian market, even in times of high prosperity, is a monopoly for British exporters.

Four-year Road Plan

Plans to spend £240 million on the roads between 1958 and 1962 were announced by the Minister of Transport in the House of Commons this week. To some extent this programme will overlap with the one already announced for the period 1955 to 1959 and estimated to cost about £140 million. There is thus a net increase in the total commitment of about £100 million.

It is apparent that the Government is also considering the possibility of road loans for specific projects such as tunnels and bridges. Normally schemes of this sort have to wait until the rate of interest is at a more propitious level than at present but on occasion urgency takes priority over the price of capital. Any idea, however, that the Government is giving the roads top priority must be qualified by the warning note struck by the Minister at the end of his announcement. He made it quite clear that the road development programme is contingent upon continued economic prosperity. Time brings these matters full circle. Once upon a time, road building programmes were kept in reserve until times were not prosperous and it was necessary to use public works schemes as a means of generating economic activity.

Reviews

The Law of Restrictive Trade Practices and Monopolies

by R. O. WILBERFORCE, Q.C., ALAN CAMPBELL, M.A.,
and NEIL P. M. ELLES, M.A., Barristers-at-Law.
Consulting editor R. GRESHAM COOKE, C.B.E., M.P.,
Barrister-at-Law.

(Sweet & Maxwell Ltd, London. £4 4s net.)

This book is quite the most ambitious work yet on the important new law introduced by the Restrictive Trade Practices Act, 1956, and on cognate subjects. It gives the background to the new legislation, describes the types of restrictive practices in use in industry and the methods by which they are enforced, shows the types of restrictive practices likely to be affected, and suggests the practical steps to be taken by industry and the trade associations in relation to the new Act. The book also deals with retail price maintenance which the Act now recognizes.

It is, of course, too early to say precisely what effect the Act will have for so much is left to the discretion of the new court to be set up under it. However, there is a great deal to be said about the considerations which have led to the passing of the Act, about the practice in other countries which have had long experience of similar legislation, and about the actual practices in English trade which are likely to be affected. Some indication of the thoroughness of the book is the fact that anti-monopolistic legislation by the ancient Greeks and Indians, not to mention the Romans, is mentioned. Even in the days of Edward VI it was an offence for retailers of various foodstuffs to conspire or promise not to sell their victuals except at certain prices. For a third offence the fine was £40

'or the offender shall sit in the pillory and lose one of his ears, and also shall at all times after that be taken as a man infamous, and his sayings, depositions or oath not credited at any time in any matter of judgment'.

Particularly useful is the extensive examination of the course of the anti-trust laws in the United States, with its copious citing of cases. Over a hundred pages are devoted to the reports of our own Monopolies and Restrictive Practices Commission, and, of course, the relevant English statutes are reproduced. Altogether this is going to be an extremely useful work for anyone affected by the new law.

Guide to the Law of Trustee Savings Banks

by C. L. LAWTON, LL.D., Barrister-at-Law
(Savings Banks Institute, London. £2 2s net)

In his most laudatory foreword Sir Cecil Crabbe, the Chief Registrar of Friendly Societies, describes this book as being by all standards a *magnum opus*. There are 700 pages of careful and scholarly exposition of the law, though not so theoretical as to let one forget that the author is an experienced admini-

strator in this field. Then there are 125 pages of reports of awards made by the Chief Registrar in disputes: reports that are not easily obtainable otherwise. The great consolidating statute of 1954 is reproduced, together with a number of statutory instruments and some model rules; finally, there is a 27-page index.

When, in 1949, the author published his first book under the same title – although it covered less than 400 pages – it represented a remarkable pioneer achievement in a complicated and difficult field which, for reasons which are not difficult to understand, had previously been greatly neglected by textbook writers. Mastery of the subject requires a thorough knowledge of the law of trusts, the law of banking generally, the law of taxation as it affects savings banks, and a practical grasp of the everyday problems which arise.

Because, mercifully, most disputes are settled without recourse to the Courts, and the body of precedents which has grown up is not to be found in the ordinary legal library, the book is worth having, if only for that. In fact, of course, it offers much more. Nevertheless, we venture to suggest that in the next edition the index be made much fuller, and that more details be given of those few banks in Scotland governed by the Act of 1819, and of the privileges they enjoy, though they have not yet become 'Trustee Savings Banks'. They may not fall within the scope of the book's title, but it is difficult to see how otherwise they will be dealt with in an adequate textbook.

The Farmer's Legal and Financial Handbook

by DAVID SHRAND, M.COM., A.S.A.A., C.A.(S.A.)
and

GORDON DAVID, Q.C., M.A.(OXON.), LL.B.(S.A.)
(Legal & Financial Publishing Company,
P.O. Box 3461, Cape Town. 29s post free.)

The title of this book is a considerable understatement of its contents, which range from artificial insemination to wills, as well as to legal and financial matters. Indeed, it is a valuable work of reference for the farmer on every aspect of his business affairs, both technical and personal, in sickness ('Drought and Flood Distress Relief') and in health ('The Farmer and the Investment of his Funds'), to quote the titles of two sections of the work.

The work is, however, written for the South African farmer and his advisers so that the legal references relate to legislation in South Africa and much of the financial data applies to conditions existing in that country. Nevertheless, there is much to interest the reader in the United Kingdom and the chapters dealing with income tax and estate duty in the Union will doubtless arouse his envy.

Although this work can only have a limited appeal

in this country it provides a useful compendium for those with business interests in the Union, or who are called upon to give advice to clients contemplating investment in South African agriculture. Since the British farmer is now having to meet increasing competition from imported produce a better understanding of conditions and problems elsewhere will help him solve the marketing problems that arise.

**Compilation of the Legal Provisions,
Regulations, Circulars and Forms Relating to
Double Taxation Relief in the United Kingdom
of Great Britain and Northern Ireland**

by F. E. KOCH and RICHARD MOSS

(International Bureau of Fiscal Documentation,
Amsterdam. 17s net)

The foreword of this useful handbook rightly points out that the official material in the form of statutes, regulations, circulars and forms concerning double taxation relief has been accumulating with little apparent attempt at consolidation. But this is rather more than a compilation; the work begins with an interesting section on the history of double tax relief, followed by a section on convention and unilateral reliefs. The seventy or so conventions have not been reproduced, since they would add much bulk but little usefulness. Needless to say the excellent notes published by the Inland Revenue are included, and these form a general guide to all the individual conventions.

**Economics for Students
Fourteenth Edition**

by LEO T. LITTLE, B.Sc.(ECON.)

(Jordan & Sons Ltd, London. 18s 6d net; 19s 10d post free)

Following upon the complete rewriting of Crew's *Economics for Commercial Students and Business Men* in the last edition, a further revised edition has now appeared under a new title. The author, who is exceptionally well qualified to write for students working for their professional qualifications, has slightly extended the scope of his book. The treatment of economic theory is extremely clear and the simplicity of exposition at no time entails any loss of accuracy or completeness of argument.

The main strength of this book, as compared with others in the same field, is the extremely comprehensive treatment of current economic issues; the capital gains tax, foreign trade, the budget and monetary policy, among others, are all discussed in their theoretical context. Of especial importance, both to the examinee and general reader, is the fact that the treatment of these topics is fully up to date. The selection of questions from various examination papers has also been revised. The result is excellent: there will be many students who will be grateful to the author, while the general reader will find in its pages much to interest him.

Consequential Loss Insurance and Claims

by DENIS RILEY, F.C.I.I.

(Sweet & Maxwell Ltd, London. £2 10s net)

It is a truism that mere fire insurance of business premises cannot possibly cover the actual loss if those premises are destroyed; all kinds of standing charges go on while income often comes abruptly to an end. The mechanics of insuring against consequential loss, and of formulating and negotiating a claim when the loss arises, form a highly specialized field in which Mr Riley, as the consequential loss superintendent of a large insurance company operating in the industrial north, is an unquestioned expert. In this new book he deals fully with the principles and conditions of a modern consequential loss policy, with detailed guidance on a large number of standing and other charges. The book is embellished with elaborate practical illustrations of specimen claims.

SHORTER NOTICES

THE TRUSTEE SAVINGS BANKS YEAR BOOK, 1957, (Issued for the Trustee Savings Banks Association by Wyman & Sons Ltd, London.) The twenty-fourth edition of this book includes details of the office bearers, objects and constitution of the Trustee Savings Banks Association and of the purpose, development and services of the Trustee Savings Banks. There is also an alphabetical list of savings banks and their branches, while other features include a comprehensive statistical section.

STATISTICAL SOURCES FOR MARKET RESEARCH. (The Market Research Society in association with The Oakwood Press, London. 10s 6d net; 11s post free.) This booklet of thirty pages is intended as a reference work to the sources of statistical information relating to the economy of the United Kingdom. The emphasis is on published socio-economic data, the sources for each topic—for example, population, labour and industry—being discussed very briefly. The major omission for accountants and others is the absence of any reference to financial statistics such as stock exchange and banking data. However, for the person who requires a summary of statistical sources this work should prove extremely useful.

RESTRICTIVE TRADE PRACTICES ACT, 1956: A Guide for the Industrialist, second (revised) edition. (Federation of British Industries, London, 4s net.) The first edition of this most useful little booklet appeared in September 1956 and already some 20,000 copies are in circulation. For the second edition the work has been fully revised and supplemented to take account of subsequent developments, in particular the various orders, regulations and instructions made under the Act. The preface to the new edition very properly emphasizes that the subject is one on which legal advice is essential: the booklet should be regarded only as a guide to an Act whose meaning has yet to be established by decisions in the Courts.

RANKING, SPICER & PEGLER'S MERCANTILE LAW, incorporating *Partnership Law and the Law of*

Arbitration and Awards, tenth edition, by W. W. Bigg, F.C.A., F.S.A.A., and R. D. Penfold, LL.B., Barrister-at-Law. (H.F.L. (Publishers) Ltd, London, 21s net.) The four years since the publication of the ninth edition of this well-known book have witnessed the passing of the Law Reform (Enforcement of Contracts) Act, 1954, the Law Reform (Limitation of Actions etc.) Act, 1954, and the Hotel Proprietors Act, 1956, as well as many new judicial decisions, and while the consequential amendments have been made in the tenth edition, the opportunity has been taken to review the remainder of the text.

RECENT PUBLICATIONS

FLUCTUATIONS, GROWTH AND FORECASTING: The Principles of Dynamic Business Economics, by Sherman J. Maisel, University of California, Berkeley. xv+552 pp. 9×6. 60s net. Chapman & Hall Ltd, London.

THE CONDITIONS OF ECONOMIC PROGRESS, 3rd edition by Colin Clark, M.A. xv+720 pp. 8½×5½. 70s net. Macmillan & Co Ltd, London.

BRITISH EXPORTS AND EXCHANGE RESTRICTIONS ABROAD, Swiss Bank Corporation. 167 pp. 8½×5½. Swiss Bank Corporation, London.

BOOK-KEEPING SIMPLIFIED, by W. O. Buxton, A.C.A. viii+344 pp. 7½×5. 8s 6d net. Sir Isaac Pitman & Sons Ltd, London.

VITALITY IN ADMINISTRATION. Essays derived from a series of lectures held by the Royal Institute of Public Administrators and given by the Rt. Hon. Herbert Morrison, C.H., M.P., Mr Basil Smallpeice, B.COM., A.C.A., Sir Alexander Fleck, K.B.E., F.R.S., Sir Wilfrid Neden, C.B., C.B.E., Mr A. D. Bonham-Carter, and Maj.-Gen. G. N. Russell, C.B., C.B.E., M.INST.T. 78 pp. 8½×5½. 8s 6d net. Published for The Royal Institute of Public Administration by George Allen & Unwin Ltd, London.

PROBABILITY AND SCIENTIFIC INFERENCE, by G. Spencer Brown, Research Lecturer of Christ Church, Oxford. viii+154 pp. 7½×5. 15s net. Longmans, Green & Co Ltd, London.

JONES'S STUDIES IN PRACTICAL BANKING, 4th edition, by J. Milnes Holden, LL.B., PH.D., A.I.B., Barrister-at-Law. xviii+317 pp. 8½×5½. 25s net. Sir Isaac Pitman & Sons Ltd, London.

MAIN CROP AND EARLY POTATOES: COST AND RETURNS, 1955. Mimeographed report No. 53. 23 pp. 10×8. 1s 6d post free. Farm Economics Branch, School of Agriculture, University of Cambridge.

DAS BERUFSRECHT DER WIRTSCHAFTSTREUHÄNDER, by Professor Dr Franz Leifer. viii+168 pp. 9×6. Hochschule für Welthandel, Vienna 117, Austria.

WHERE TO LOOK FOR YOUR LAW, 12th edition, by C. W. Ringrose. 190 pp. 8½×5. 7s 6d net. (Interleaved copy, 15s net.) Sweet & Maxwell Ltd, London.

TAX CASES, reported under the direction of the Board of Inland Revenue. Vol. 36, Part 10. pp. 653-719. 3s net. H.M.S.O. London.

Finance and Commerce

A modest revival of institutional support for Government stocks and some further evidence of contracting profit margins in essential industries have temporarily changed the general stock-market picture. It is noticeable, however, that buyers appear on any lowering of industrial equity prices and the weight of investment funds flowing into the market is still considerable.

The Good Old Days

Mr William Cash, M.A., F.C.A., looks back to the 'good old days' in his review as chairman which accompanies the accounts of The Neuchatel Asphalte Co Ltd, presented to the company's eighty-fifth annual meeting. Today, he says, every company director is haunted by the rising cost of replacement of wasting assets. To plough back profits must disappoint a proprietor's hopes of dividend increases; it certainly furrows the brow of every executive.

And for a glimpse of the 'good old days' he reproduces the company's accounts for 1880, seventy-six years back, on which a hand had penned the computation of the 'Assessment of Income Tax for 1881-2 as agreed with Mr Whitworth'. Profits of £8,131 in 1878, of £8,165 in 1879, and £8,793 in 1880 gave a three-year average of £8,363 from which £300 was deducted for debenture interest and £135 added back for 'Income Tax for year ended 5 April 1881'. That provided a figure of £8,198 as the 'amount on which to pay Income Tax for year ending 5th April 1882'. And then the ultimate calculation - at 5d in the £ - £170 15s 10d. 'How simple it all was then,' says Mr Cash; 'no expert knowledge required to make that

simple calculation; and note the rate of taxation - 5d.'

Old and New

We reproduce the company's accounts this week and the balance sheet and profit and loss account for the year to December 31st, 1880, particularly because of the comparison they offer between new and old styles in the presentation of company accounts. Simple points like the fall from favour of the old 'To' and 'By' are not particularly important. There are still a few survivals of this. Only a few weeks ago, they were seen in our reprint of the Johnson & Phillips accounts. The same can be said of the odd shillings and pence.

The main change is that the balance sheet of today is designed to bring out the main facts of the financial position and one no longer has to reassemble and analyse what was then hardly more than a list of the open balances. How odd it looks now to see the profit and loss account balance so far out of its proper context!

Neuchatel is, of course, a leading name in road construction and Mr Cash comments on the country's out-of-date road system: 'Despite the much-publicized expenditure, we are losing ground.' To add to the industry's troubles, he says, the Government has decided to revert to fixed-price tendering, and while no one dislikes variable prices more than contractors and the rise-and-fall clause under which price variations are recovered often proves to be an unprofitable nuisance - since it involves much work without any remunerative result - it is unreasonable, he maintains, until price stability can be achieved, to expect

contractors to take the risk of quoting fixed prices when unpredictable increases may occur, for example, in electricity or transport charges.

Shillings and Pence

A curious change has been made in the accounts of Francis Sumner (Holdings) Ltd, for fourteen months to December 31st, 1956. Since the previous accounts, the company has been given an entirely new board under the chairmanship of Mr C. I. Walker, F.C.A. And with the change in direction, shillings and pence columns appear in the accounts which, for a public company, at least, is very unusual these days.

More curious still is the fact that so far as the consolidation is concerned, there are no shillings and pence to record, in balance sheet or profit and loss account. The respective columns contain just a series

of noughts. It is in the parent balance sheet that the odd amounts after the £ put in an appearance.

There must be some reason for this and one cannot help wondering what it is. In the early days of this column, when we urged approximation to £, readers debated in our correspondence columns whether approximated figures could be certified as according with the books. Now we get accounts like those of Unilever with figures in multi-millions, where the approximation is to the thousands of £.

Money Market

Applications for Treasury bills totalled £415,975,000 on July 19th and, bidding at £99 or 9d, the market syndicate's allotment was 36 per cent of the £250 million allotted. The average rate was £3 16s 9·94d per cent and this week's offer is £230 million.

THE NEUCHATEL ASPHALTE COMPANY LIMITED.

Dr.

BALANCE SHEET, 31st December, 1880.

Cr.

CAPITAL, viz.—	
80,000 Ordinary Shares of £10	
each	£800,000 0 0
Less Unissued	
320 Shares	3,200 0 0
	£796,800 0 0
35,000 Preferred Shares of £10	
each	350,000 0 0
Less—Unissued	
980 Shares	9,800 0 0
	340,200 0 0
	£1,137,000 0 0
Sundry Creditors in London and at Agencies	
including Reserve and Maintenance ..	5,730 18 3
Unpaid Dividends	162 10 10
Reserve Fund and Accrued Interest ..	2,050 0 0
Suspense against Material to be Supplied ..	1,514 9 10
Profit and Loss—	
Balance at Credit 31st December, 1879 ..	17,578 13 2
Less Dividends 4s. per share .. £6,804 0 0	
Amount carried to Reserve	
Fund	2,000 0 0
	8,804 0 0
	8,774 13 2
Profit for year to 31st December, 1880, per	
account	8,793 4 5
	17,567 17 7
	£1,164,025 16 6

By cost in Shares of Concession of Mine, &c., including the amount also paid in Shares, &c., for the Goodwill and Assets of the Sub-Companies, and for the modification and prolongation of the Concession as per Account 31st December, 1879		£1,060,425 13 7	
Less amount received from Assets of Sub-Companies previously written off as worthless		2,121 18 6	
			1,058,303 15 1
.. Plant and Machinery at Mine and Agencies ..			11,516 17 1
.. Landed Property and Buildings at Mine and Agencies			6,467 18 0
.. Stock on hand—			
At Mine	£9,970 13 8		
At Agencies	8,038 4 7		
			18,008 18 3
.. Furniture at London and Agencies			366 3 4
.. Sundry Debtors at ditto			26,433 6 6
.. Amount payable by Val de Travers Company by yearly instalments			800 0 0
.. Cash at London and Agencies—			
At Bankers	13,386 11 7		
In Hand	48 15 5		
			13,435 7 0
.. Bills Receivable			3,813 7 2
.. Caution Money deposited and Royalty prepaid—			
In Cash	14,665 6 5		
Shares of the Company	4,000 0 0		
			18,665 6 5
.. Investments—			
In English Railway Debentures	6,089 17 8		
Val de Travers Company Shares	125 0 0		
			6,214 17 8
			£1,164,025 16 6

Dr.

PROFIT AND LOSS ACCOUNT from January 1st to December 31st, 1880.

Cr.

Wages and General Expenses at Mine	£8,086 19 7
Royalty	6,000 0 0
London Charges, including Rent, Salaries, Directors' Fees, Travelling Expenses, &c.	2,968 9 9
Depreciation of Plant, &c., exclusive of that charged against Agencies	548 3 7
	17,603 12 11
Paris Yard Expenses	200 0 0
Balance—being Profit carried to Balance Sheet ..	8,793 4 5
	£26,596 17 4

By Sales of Rock, Powder and Mastic	£17,745 17 2
.. Stock on hand 31st December, 1880	9,272 13 8
	27,018 10 10
Less Stock on hand 31st December, 1879	7,906 17 7
	£19,111 13 3
By Revenue Account of Landed Property—Balance of Receipts and Expenditure	78 12 11
.. Interest, Discount, and Exchange	791 15 4
.. Transfer Fees	162 12 6
.. Balance of Profit at Agencies	6,452 3 4
	£26,596 17 4

We have examined the foregoing Balance Sheet and Profit and Loss Account for the year ending 31st December, 1880, with the Books and Vouchers in London, and the Accounts in the Agencies, and find the same to be correct. The above profit is subject to deduction in respect of the Depreciation in the book value of the Concession and Goodwill.

PRICE, WATERHOUSE & Co.,
44, Gresham Street, E.C.

30th March, 1881.

CONSOLIDATED BALANCE SHEET, 31st December, 1956

[illegible]

The relative notes [reproduced on page 105] form part of this Balance Sheet.

W. CASH, } Directors.
E. VIGOR, }

The relative notes (see adjoining column) form part of this account.

Current Law

Accruer Clause in a Will

The testator in *Re Atkinson's Will Trusts, Prescott v. Child and Others* ([1956] 3 W.L.R. 900) bequeathed his residuary estate to his great-nieces, C. and E., in equal shares. Having done so, he went on to provide, in a new sentence, that C.'s share should not vest in her absolutely, but be retained by his trustees to pay the income to her for life, and then upon trust for her issue as she should appoint, and in default of appointment in trust for her children who should attain the age of 21. He then declared similar trusts in respect of E.'s share. The will continued:

'Provided always and I declare that in the event of the failure or determination of the trusts hereinbefore declared and contained concerning either of the shares in the said residuary moneys such share and the income thereof . . . shall go and accrue by way of addition to the other share in the said residuary moneys and such accruing share shall be held upon the trusts and subject to the powers and provisions herein declared and contained concerning the original share to which the same shall be added or as near thereto as circumstances will admit.'

Both C. and E. survived the testator. E. died without issue in 1927 and C. died without issue in 1955. After her death the plaintiff, one of the trustees, sought the decision of the Court whether on C.'s death E.'s share passed to her own or to C.'s personal representatives. It was not disputed that there applied to the case the rule in *Hancock v. Watson* ([1902] A.C. 14), which is to the effect that when a gift is made in absolute terms, and then some restrictive, modifying or qualifying provision is engrafted on to it which is for some reason – such as remoteness – void, the provision is rejected and the absolute gift stands.

In the case before him, Upjohn, J., held that the trusts, powers and provisions set out in the accruer clause quoted above applied only to the trusts engrafted on the original gift to C., not to the gift itself, which was in absolute terms, so that, as the trusts came to an end on C.'s death, the original gift of E.'s share vested in her own personal representatives.

Arbitration not Appropriate

Perhaps the most notable point about the decision of the House of Lords in *Fairclough Dodd & Jones Ltd v. J. H. Vantol Ltd* ([1956] 3 All E.R. 921) was Lord Tucker's statement that he wished to associate himself with the observations of McNair, J., at first instance ([1955] 2 All E.R. 516) on the delay which had arisen in a case which had been referred initially to arbitration when the parties might have gone in the first place to the Commercial Court, and obtained there a speedy trial of the issue. The case was concerned with the meaning of a *force majeure* clause in a contract. The latest of the material

events took place in February 1951. It was not till May 1955 that the case reached McNair, J., by way of a special case stated under the Arbitration Act, 1950, Section 21 (1), by the Board of Appeal of the London Oil and Tallow Trades Association. Desirable and satisfactory as resort to arbitration may often be, it is clear from this case that the Commercial Court is the proper place for the decision of questions of law or of construction of documents in mercantile contracts.

Misapplication of Army Funds

The case of *Regina v. Nicholson* ([1957] 1 All E.R. 67), a decision of the Courts-Martial Appeal Court, is of interest because of the meaning attached by the Court to the phrase 'service property' in Section 17 of the Army Act. The appellant had been convicted of fraudulently misapplying 'service property' in that he had misapplied various sums belonging to the warrant officers' and sergeants' mess of his unit, and it was contended that the moneys in question were not 'service property'. The Courts-Martial Appeal Court held that they were, by virtue of the definition of 'service' in Section 190 of the Act.

This does not, of course, affect the well-established proposition that such moneys, which are regimental non-public funds, are held upon charitable trusts for the benefit of the institution in question on the basis that they work a public benefit by improving the morale and efficiency of the armed forces of the Crown. (In the Army Act, 1955, which came into force on January 1st, 1957, 'service' and 'service property' are both defined in Section 225 (1): *Regina v. Nicholson* was heard before the Act came into force.)

Loss of Policemen's Services

As was to be expected, appeals were carried to the Court of Appeal from the conflicting decisions of Slade, J., in *Metropolitan Police District Receiver v. Croydon Corporation and Another* ([1956] 2 All E.R. 785) and Lynskey, J., in *Monmouthshire County Council v. Smith* ([1956] 2 All E.R. 800), which were noted in *The Accountant* dated September 29th, 1956. The Court of Appeal ([1957] 1 All E.R. 78) allowed the appeal of the defendants in the former case and dismissed the appeal of the plaintiff in the latter case.

The *ratio decidendi* lay in the fact that the plaintiffs were under a duty to pay the wages of the injured policemen whether they were on duty or not, so that their financial position had not been in any wise altered as a result of the defendants' negligence. (It was not suggested that the plaintiffs had had to take on extra policemen by reason of the injured men being incapacitated.) The liability of the defendants was to pay such damages as by reason of their wrongdoing the plaintiffs had sustained, and in both cases that was nil.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Answer to Inflation?

SIR, — With reference to Mr Russ's views in your issue of July 20th, while it may be doubtful whether the accountancy profession has the whole answer to the problem of inflation, there can be no doubt that the adoption of effective cost control techniques throughout industry would lead to a great improvement in the position.

Most large concerns are fully aware of this. It is in the small and medium-sized firms that the need is greatest, and many of these hesitate to make use of consultants because

- (a) they regard the employment of consultants as an admission of inability to manage their own business;
- (b) they assert that their business is 'different', and that these techniques do not apply;
- (c) the cost is too great, in their opinion.

There are tremendous possibilities here for the profession to dispel wrong ideas and to develop this field. It has a 'flying start' in that it already enjoys the confidence of its clients, and this is half the battle; but it must be much more active in this field than it has been so far, both in advocating the use of these techniques and in providing the assistance necessary for their installation.

There are many small firms who, because of their size, feel that they cannot afford to employ either consultants or even a full-time accountant competent in these matters. Would it not be possible for them to employ a suitable accountant on a regular part-time basis? They would then have the benefit of expert advice and supervision for a smaller outlay. There must be accountants who would accept part-time appointments with a number of smaller firms rather than a full-time appointment with a larger firm.

I am, Sir,

Yours very truly,

E. CARSON, A.C.W.A., A.C.I.S.

Welwyn Garden City,
Herts.

Training for the Profession

SIR, — May I be permitted to make a few comments arising out of Mr Coulson's article which appeared in last week's issue?

In many ways the correspondence course can be regarded only as a very inferior substitute for oral tuition in a college. One of the major defects of correspondence course tuition is that it is a rather inflexible form of education by remote control, and cannot provide an essential element, namely, full discussion and that interplay between students and teacher whereby comment calls forth a chain-reaction of argument. Discussion is the lifeblood of education,

and a full discussion of accepted principles in accounting subjects, and the reasoning on which they are based, must surely play a major part in the development of the clerk's mind, which must be achieved *before* he can fully benefit from the practical experience of the office.

It is fundamental to bear in mind that emphasis on the training of the accountant as a practical business man must not be at the expense of his training as a scholar, since it is upon the latter element in his make-up that the development of basic principles depends.

There is, of course, a great advantage to be derived in this respect from the existence of the various university departments of accounting; but there are many clerks who, for various reasons, are not in a position to take advantage of this training. Why not, therefore, give official approval to attendance at technical colleges which are widely spread throughout the country? Of course, this question has already been raised many times, but can any really sound arguments be put forward against such proposals?

It is almost a self-evident fact that college tuition of this type is superior to the correspondence course. Technical colleges are already an integral part of the training of students in a wide variety of industrial and commercial subjects on a sandwich-course principle. The time which the clerk occupies in such training, as opposed to attendance at the office, particularly during the early years of his service, must surely be recouped by a greater absorption-rate of the *significance* of the practical matters which he encounters. From the point of view of the principal, would not any loss of labour-time which he suffers be worth while in the interests of the development of the profession?

The picture of the clerk who undergoes 'the discipline of retiring to a desk night after night' and studies 'dull and wearisome books' is in a sense an argument against the correspondence course system. Such an atmosphere can hardly stimulate his enthusiasm and interest and encourage him to develop an inquiring approach to his work. Instead of regarding his study as a necessary evil to which he must school himself in order to qualify, the clerk must develop, at the earliest opportunity, the approach that the acquisition of knowledge of his subject is something worth while in itself, apart from the examination; he should, in fact, pass from schoolboy into student, and will never make a good accountant until he does so, since his studying days are by no means over when he passes his Final.

Mr Coulson's conclusion that

'formal or classroom training in accountancy subjects, whilst of interest and value, especially from

the standpoint of examination needs, is not essential . . .

appears to differ fundamentally from the accepted views of educationists that training must go beyond mere examination preparation; rather, the emphasis should be that *as a result of* such training the student will pass his examination.

On the question of discipline, is it not also true to say that a really valuable part of the clerk's development in preparation for membership of the profession springs not so much from restriction but, paradoxically, from greater freedom? It is here that college tuition has so much more to offer than the correspondence course in the fuller development of the mind, since the student is left substantially to organize his own studies within the general framework of the lectures and classes provided, and to allocate wisely the time which he has available among the various activities of college life which compete for his attention.

If the clerk is to pass his school examinations prior to training for the profession, he will already have experienced, in some measure at least, the discipline of study. He will, however, in the senior forms of his school, be encouraged to plan a part of his studies independently of his masters, and this process will be continued in the college where, aided by the traditions and atmosphere of an academic establishment, the full value of this form of discipline will be developed.

Yours faithfully,

Iver, Bucks. A. P. ROBSON, B.SC.(ECON.).

SIR, — One of the themes underlying Mr Coulson's thoughtful and constructive article on professional education is that greater benefits would accrue to the articulated clerk if he had experience in both large and small offices.

Mr Coulson propounds the transferability of articles, visualizing, it would appear, 'one-way traffic'; cannot the 'small firm' afford to the 'large firm' articulated clerk equally beneficial experience, a thought which prompts me to suggest that some consideration

be given, in appropriate quarters, to the interchange of articulated clerks if individuals so desired. For example, during five years' articles there could be two inter-change periods of six months each, the first approximately eighteen months after commencement of articles, and the second about two years later.

As a 'small firm' man throughout thirty years in the profession, I adhere to the view that, on balance, we 'little folk' can offer the better experience. None the less, our clerks should have some idea how the large firm functions. Conversely, those who have decided to enter the profession through the imposing portals of practices sufficiently extensive to warrant sub-division into specified departments, can usefully have an appreciation how we do everything for ourselves.

Yours faithfully,

London, EC2. CLIFFORD D. WITTON.

Folkestone Race-course Accounts

SIR, — With reference to the letter from Mr Kenneth S. Most, in your issue of July 13th, it appears that your correspondent is under a misapprehension regarding the nature of the amounts deducted in the balance sheet. The grants by the Race-course Fund were made specifically in respect of capital expenditure.

Yours faithfully,

BLACK, GEOGHEGAN & TILL.

London, EC4.

An Auditing Point

SIR, — A limited company acting as an agent has made secret profits on certain transactions, which greatly exceed the specific commissions allowed by its principal. Readers' views are invited regarding the position of the auditor generally in such a case, and if it is thought that a note must appear on the balance sheet regarding the presumed contingent liability in respect of the principal's rights of recovery against the company, the form such note should take.

Yours faithfully,

COMMISSION.

Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'.

Carson v. Cheyney's Executor

In the High Court of Justice (Chancery Division)

June 5th, 1957

(Before Mr Justice HARMAN)

Income tax — Author — Royalty payments — Royalties paid after death — Whether receipts of provision — Income Tax Act, 1952, Schedule D, Case II, Case III.

At the date of the death of Mr Peter Cheyney there were four contracts in existence, pursuant to which royalties were being paid to him. Three of these contracts provided for him to write books for publishers,

and the fourth contract provided for the exploitation in the French language of an already existing book. After the death of Mr Cheyney royalties arising under these contracts were paid to his executor.

The Inland Revenue contended that the sums representing these royalties were assessable under Case III or Case VI of Schedule D, and assessments were made on the respondent accordingly.

Held, that the respondent was not assessable in respect of the sums in question, since they constituted receipts arising out of the deceased's professional activities.

New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES

(5 & 6 Eliz. 2)

Chapter 27: Solicitors Act, 1957

An Act to consolidate the Solicitors Acts, 1932 to 1956, and certain other enactments relating to solicitors, with corrections and improvements made under the Consolidation of Enactments (Procedure) Act, 1949.
Price 2s 6d net. June 6th, 1957.

Chapter 33: New Streets Act, 1951 (Amendment) Act, 1957

An Act to amend the New Streets Act, 1951.
Price 8d net. June 6th, 1957.

STATUTORY INSTRUMENTS

The Double Taxation Relief (Taxes on Income) (Austria) Order, 1957 (S.I. 1957 No. 598)

Under the Convention with Austria which is scheduled to this Order certain classes of income derived from one country by a resident of the other country are (subject to certain conditions) to be exempt from tax in the former country. These classes are shipping and air transport profits, certain trading profits not arising through a permanent establishment, patent and copyright royalties, interest, pensions other than Government pensions, purchased annuities and earnings of temporary business visitors. Government salaries and pensions are normally to be taxed by the paying Government only. Remuneration of visiting professors and teachers is to be exempt in the country visited.

The rate of Austrian tax on dividends received from Austria by United Kingdom residents is (subject to certain conditions) not to exceed 10 per cent. Residents of Austria are to be entitled to the same personal allowances as British subjects resident abroad and corresponding allowances are to be given by Austria to residents of the United Kingdom.

Where income continues to be taxable in both countries, full credit is to be given by the country of the taxpayer's residence for the tax payable in the country of origin of the income. Provision is included for the exchange of information between the taxation authorities of the two countries.

The Convention is to take effect for the fiscal year 1956-57.

Price 6d net. April 5th, 1957.

The Investment Allowances (Fuel Economy Plant) Order, 1957 (S.I. 1957 No. 938)

Section 15 (3) (b), Finance Act, 1956, provides that investment allowances are to be continued for expenditure incurred after February 17th, 1956, on prescribed fuel-saving plant if it is installed by way of modification or replacement of plant in use in the United Kingdom. The Investment Allowances (Fuel Economy Plant)

Order, 1956, prescribed a list of fuel-saving plant and the conditions, if any, upon which such plant was prescribed. The present Order prescribes, as from the date when it comes into operation, certain additional items of fuel-saving plant.

Price 3d net. June 5th, 1957.

The Companies (Winding-up) (Amendment) Rules, 1957 (S.I. 1957 No. 973 (L. 6))

These Rules amend the Companies (Winding-up) Rules, 1949. The principal changes are as follows:

- (1) The taxation of costs in proceedings in the Companies Court of the High Court may now be conducted only in the Supreme Court Taxing Office. Hitherto the Registrar or any person acting under his direction has been authorized to conduct such taxations.
- (2) In the general title used in proceedings in that Court (Form 2) a reference to a particular judge is no longer required.

The Companies (Winding-up) (Amendment) Rules, 1955, are revoked and in consequence Form 91, which remains unchanged, is included in these Rules.

Price 3d net. June 18th, 1957.

The Exchange of Securities Rules, 1957 (S.I. 1957 No. 1032)

These Rules prescribe the procedure with respect to the acceptance of the offer to exchange 2½ per cent Defence Bonds and 2½ per cent Defence Bonds (Conversion Issue) for 4½ per cent Defence Bonds (Conversion Issue).

Price 3d net. June 21st, 1957.

The Rent Restrictions Regulations, 1957 (S.I. 1957 No. 981)

These Regulations prescribe the forms of notice and other documents for use for the purposes of the Rent Act, 1957. The prescribed forms replace those prescribed by the Rent Restrictions Regulations, 1954, which are revoked by the Regulations, which also prescribe additional forms.

Price 11d net. July 6th, 1957.

The Rent Restrictions (Scotland) Regulations, 1957

(S.I. 1957 No. 1044 (S.53))

These regulations re-enact with amendments:

- (a) the Housing (Repairs Increase) (Scotland) Regulations, 1954, which prescribed the forms in which notices of repairs increase, certificates of disrepair and other documents should be made under the provisions of the Housing (Repairs and Rents) (Scotland) Act, 1954, and provided rules for measurement of floor areas in apportioning work for the purpose of determining

whether the landlord has carried out work to the appropriate value, in the case where the dwelling-house forms only part of a building;

- (b) the Rent Restrictions (Scotland) Amendment Regulations, 1954, which prescribed the form of notice to be inserted in every rent book or similar document used by or on behalf of a landlord in respect of a dwelling-house to which the Rent Acts apply.

The following additional forms are prescribed in these regulations:

- (i) the forms in which notices of increase and notices of decontrol under the Rent Act, 1957, should be given;
- (ii) the form of notice to be inserted in every rent

book or similar document used in relation to a weekly let of a furnished house to which the Rent of Furnished Houses Control (Scotland) Act, 1943, applies.

Price 1s 6d net.

July 6th, 1957.

The Control of Foreign Currency Securities Directions, 1957 (S.I. 1957 No. 1172)

These Directions prohibit, except with permission granted by or on behalf of the Treasury, dealings in foreign currency securities which are held by, or to the order of, residents of the scheduled territories other than the United Kingdom.

Price 3d net.

July 5th, 1957.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

RESULTS OF MAY 1957 INTERMEDIATE AND FINAL EXAMINATIONS

Notices to candidates who sat for the Institute's examinations last May were posted yesterday (July 26th). A full list of successful candidates will be displayed at the Institute from 12 noon on Tuesday next, July 30th, and will be published in these columns next week.

PERSONAL

MESSRS P. & J. KEVAN, Chartered Accountants, of 12 Acresfield, Bolton, announce that they have opened an office in Manchester at Cromwell Buildings, Blackfriars Street, Manchester, 3.

MESSRS GÉRARD VAN DE LINDE & SON, Chartered Accountants, of 4 Fenchurch Avenue, London, EC3, announce that their new address as from July 29th, 1957, will be Chesterfield House, 26-28 Fenchurch Street, London, EC3. The telephone number will remain unchanged.

MESSRS SWANWICK, TERRAS & Co, Chartered Accountants, of 64 Cross Street, Manchester, 2, announce that Mr ERIC BARRINGTON HARPER, A.C.A., who served his articles with them and who has been on their staff since qualifying in 1924, has been admitted to partnership as from June 1st, 1957. The name of the firm will remain unchanged.

MESSRS H. SHARP, A.S.A.A., and R. T. ADDY, A.S.A.A., announce that they have amalgamated their practices which will be carried on under the style of SHARP, ADDY & Co, Incorporated Accountants, at 7 Bishop Lane, Hull.

PROFESSIONAL NOTE

Mr F. G. Manning, A.S.A.A., administration officer of the finance department, funds and general division of the British Transport Commission, has been appointed assistant director (general matters) of the division.

LOCAL RATING OFFICES: SATURDAY CLOSING

The Board of Inland Revenue has announced that local rating offices of the Valuation Office will be closed on Saturdays as from August 3rd, 1957.

IN PARLIAMENT

ROYAL COMMISSION ON TAXATION: REPORT

Dame IRENE WARD asked the Chancellor of the Exchequer what progress he has made in his comprehensive review of taxation with a view to bringing it into line with the recommendations of the Royal Commission on Taxation.

Mr P. THORNEYCROFT: A considerable number of provisions based on the Royal Commission's recommendations have been included in recent Finance Acts and in the Finance Bill now before Parliament. Among them are the provisions of the Finance Bill relating to overseas trade corporations; the provisions of the Finance Act, 1956, regarding retirement annuities for the self-employed and others; and the improvements which have been made in the personal allowances in the last three years in order to relieve the smallest incomes from tax, to give better reliefs to the family, and to extend the range of the earned income relief. I propose to consider other recommendations of the Royal Commission in the coming year.

Hansard, July 10th, 1957. Written Answers. Col. 53.

£ STERLING: VALUE

Mr OSBORNE asked the Chancellor of the Exchequer the value of the £ sterling in 1911 compared with today.

Mr NIGEL BIRCH: It is estimated that £1 in 1911 had the equivalent purchasing power of £4 7s 7d in May 1957.

Mr JAY: Is the Economic Secretary aware that so far the effects of the Chancellor's speech in the City yesterday have been, first, a further fall in the price of War Loan, and secondly, a rumour that there is to be an autumn Budget? Even if the Chancellor cannot prevent a fall in gilt-edged, can we at least have an assurance that there is not to be an autumn Budget?

Mr BIRCH: The right hon. gentleman must not confuse the interest rates with the credit of the country. When our long-term rates were $2\frac{1}{2}$ per cent our currency was weaker than ever it has been before or since.

Mr JAY: Cannot the right hon. gentleman at least give a plain assurance that there will be no autumn Budget this year?

Mr BIRCH: There will be no autumn Budget.

MR SPEAKER: The supplementary question seems very remote from the value of the £ in 1911.

Hansard, July 11th, 1957. Oral Answers. Col. 537.

OVERSEAS TRADE CORPORATIONS: DISQUALIFICATIONS
SIR A. SPEARMAN asked the Chancellor of the Exchequer whether the delivery of goods via the Post Office would qualify as delivery outside the United Kingdom for the purpose of clause 21 (2) (a) of the Finance Bill.

MR POWELL: I am advised that if a company purchased in this country goods for resale abroad and the goods were sent by post to that company outside the United Kingdom and the contract of sale required that they should be delivered outside the United Kingdom, the company would not be disqualified under clause 24 (2) of the Finance Bill by reason of that transaction.

Hansard, July 22nd, 1957. Written Answers. Col. 20.

THE HULL, EAST YORKSHIRE AND LINCOLNSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

The competition for the J. J. Campbell Golf Cup was held over the Brough course on July 16th. It was played under Stableford scoring and resulted in a win for an articulated clerk, Mr G. H. McMillan, who also won the prize presented by the President, Mr F. S. Mowforth; by a happy coincidence, the winner is articulated to Mr Mowforth.

After the competition, the competitors were entertained to tea by the Vice-President, Mr D. C. S. Downs, who presented the cup and prize to the winner.

The results were as follows:

G. H. McMillan	..	..	(23)	37	points
D. C. S. Downs	..	..	(Scr.)	33	"
R. Taylor	..	..	(7)	30	"
I. S. Evenden	..	..	(7)	30	"
I. Greig	..	..	(12)	30	"
E. Turner	..	..	(4)	27	"
A. M. W. Mayfield	..	..	(22)	27	"
J. M. Smith	..	..	(8)	26	"
G. R. Smith	..	..	(19)	18	"

THE SCOTTISH CHARTERED ACCOUNTANTS IN LONDON GOLF CLUB

The annual competitions of The Scottish Chartered Accountants in London Golf Club were held at Woking Golf Club on July 15th attended by thirty-five members.

Conditions were ideal for golf, but competitors found it difficult to score a good medal round as the fairways are 'tight' and the course was at its fastest. On the other hand, considerable improvement was shown in the bogey scores. Three competitors, Messrs H. C. Maclellan, J. H. Williamson and J. Bruce Peat, tied with a score of 1 up. Mr Maclellan was the winner of the Cup by virtue of the best score for the second nine holes; Mr Williamson was runner-up, while Mr Bruce

Peat—in spite of an excellent performance over the first nine holes—had to be content with third place. There were two scores of all square and three of 1 down.

The Lady Mann Challenge Cup was won by the firm of Brown, Fleming & Murray with a best net score for two members from that office of 147.

The following were the prize-winners:

Past Presidents' Challenge Cup

Winner: R. Darby 88-18=70

Runner-up: R. K. Graham 78-5=73

J. Ivan Spens Challenge Cup (Handicap 12 or over)

Winner: A. Syme 89-17=72

Runner-up: S. Berlanny 96-18=78

Best 9 Holes Home: R. K. Graham .. 40-2½=37½

Best Gross Score: R. K. Graham .. 78

Lady Mann Challenge Cup

R. K. Graham and R. Hyem 73 and 74=147

Bogey Challenge Cup

Winner: H. C. Maclellan 1 up

Runner-up: J. H. Williamson 1 up

The best scores were as follows:

Past Presidents' Challenge Cup

R. Darby 88-18=70

A. Syme 89-17=72

R. K. Graham 78-5=73

R. Hyem 84-10=74

J. Thomson 85-9=76

S. Berlanny 96-18=78

C. M. Scroggie 90-11=79

T. N. Ritchie 92-13=79

J. D. Harrison 81-1=80

R. A. Collet 100-18=82

H. C. Maclellan 90-8=82

F. Parkinson 98-16=82

Bogey Challenge Cup

H. C. Maclellan 1 up

J. H. Williamson 1 up

J. B. Peat 1 up

R. Darby all square

R. M. Brown all square

D. Ross 1 down

D. A. Sloan 1 down

R. K. Graham 1 down

S. Berlanny 3 down

C. M. Scroggie 3 down

T. Ford Millar 3 down

D. L. Skinner 3 down

E. F. Milne 4 down

D. W. Ness 4 down

A. Syme 5 down

RATES IN ENGLAND AND WALES

The twelfth annual return of rates¹ to be published by The Institute of Municipal Treasurers and Accountants is compiled in two sections, the first containing particulars of rates levied and the second showing details of rates levied per head of population. The figures relate to all county and metropolitan boroughs and to

¹ The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, SW1. Price 7s 6d post free.

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a representative selection of non-county boroughs, urban districts and rural districts.

In previous years, the figures of rates levied per head of population were obtained by multiplying rates levied by the rateable value at April 1st and dividing by the population. This year the calculations are based on the product of a penny rate instead of on the rateable value. The new method, which eliminates distortions caused by the varying extent of reliefs for charitable properties, produces figures generally rather smaller than were obtained by the old method and for this reason comparable averages for 1956-57 are not given in the second part of the return.

The average rate levied in the current financial year in county boroughs is 18s 10d or 2s 3d more than in the previous year. For metropolitan boroughs this year's total is 3s higher at 16s 11d; for non-county boroughs and urban districts the total is 1s 11d higher at 18s 10d and for rural districts the total is 1s 8d more at 17s.

Education continues to be the biggest charge on the ratepayer and highways and police also take a large proportion.

UNITED KINGDOM FINANCIAL INSTITUTIONS

A concise and up-to-date description of Britain's financial institutions is contained in a booklet produced by the Central Office of Information called *United Kingdom Financial Institutions*¹.

The booklet describes the origins, functions and activities of the Bank of England, commercial banks, discount houses, accepting houses, the stock exchange, finance corporations, building societies and insurance bodies. It should prove helpful not only to the layman or student who wants a general view of the capital market as a whole, but also to specialists in particular fields who wish to gain some knowledge of other parts of the capital market.

THE CHARTERED INSURANCE INSTITUTE

The Chartered Insurance Institute this year celebrates its diamond jubilee and to mark the occasion, the Institute has published a commemorative history written by its secretary, Mr H. A. L. Cockerell, B.A., F.C.I.I.²

The book, illustrated by a number of photographs, traces the development of the Institute from its foundation in 1897 by a handful of enthusiasts to the movement that now has an international reputation in the field of insurance education. Today there are seventy-six affiliated institutes and the world-wide membership, which has risen since 1947 by about 1,000 a year, totals 38,000.

¹ H.M.S.O. 2s 3d net.

² *Sixty Years of The Chartered Insurance Institute, 1897-1957*. Published by The Chartered Insurance Institute, Aldermanbury, London, EC2. Price 5s 6d post free.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 29TH, 1882

Extract from a leading article entitled

THE NORTHERN INSTITUTE OF CHARTERED ACCOUNTANTS

A very short time since we had pleasure in chronicling a meeting of the Chartered Accountants of Birmingham and district, held for the purpose of establishing a local society similar to those that have been in existence for many years in Liverpool, Manchester and Sheffield. We then remarked that it was as much the wish as the interest of local accountants to form themselves into branch societies. Scarcely a month elapsed before a meeting, having a similar object in view, was held in Newcastle-on-Tyne, at which resolutions were passed, (1) to form a Local Institute, composed of Fellows and Associates of the Institute of Chartered Accountants in the Counties of Northumberland and Durham; (2) to appoint a committee to prepare a scheme for the formation of such an Institute, together with the necessary rules and regulations, and to submit such scheme and rules when prepared to a General Meeting of the Fellows and Associates in the Counties of Northumberland and Durham; (3) to instruct the local secretary to communicate with the secretary of the Institute of Chartered Accountants in London, asking the Council not to take steps to fill up the two vacancies which had arisen in the Council until such time as the views in reference to representation of the northern district had been obtained at a meeting of the proposed local Institute; (4) to appoint Mr. Fred. R. Goddard, St. Nicholas Chambers, Secretary *pro tem.* of the Institute...

A general meeting of the new Institute is to be held on the 31st inst. to adopt the rules and regulations, and transact other business, which will doubtless be reported in a subsequent issue.

We congratulate the members of the Northern Institute on their enterprise, and, while wishing them success, we at the same time hope that the movement will be extended to other unrepresented districts.

ANNOTATED TAX CASES

Edited by ROY BORNEMAN, Q.C.

Published each month. Reports of Income Tax, Surtax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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THE SCOTTISH INSTITUTE'S PENSION SCHEME

THIS week The Institute of Chartered Accountants of Scotland announced details of a plan for retirement benefits for its members. There will be no separate fund as each member contracts directly with the Standard Life Assurance Company. The plan contains a variety of scales of benefit between which the members of the Institute are free to choose and the explanatory booklet gives details and a complete explanation of these. Parts I and II of the booklet relate to contracts under Section 22 of the Finance Act, 1956, and Part III offers ordinary life and endowment assurance policies as an alternative.

Premiums paid for contracts under Part I are accumulated at a rate of interest equal to the yield on $2\frac{1}{2}$ per cent Consols at the date when the premium is paid. Once this rate has been fixed for a particular premium, subsequent variations in the price of this stock do not affect the rate of interest used in the accumulation.

In this way the member, when he decides to retire, will have accumulated a credit which is applied to provide an annuity payable for a period certain of five or ten years and during the remainder of his life. Included in the member's credit there will be various parts which have been accumulating at differing rates of interest and each of these parts is converted to an annuity at a rate appropriate to its rate of interest.

There is a guarantee that the rate of interest used for the accumulation of premiums paid before August 1st, 1962, shall not fall below 4 per cent, and provided that a member's premiums prior to that date amount to at least £50 the minimum rate of interest for premiums paid in the ensuing ten years shall be $3\frac{3}{4}$ per cent, and the minimum rate for subsequent premiums $3\frac{1}{2}$ per cent.

Part II is designed to provide an additional annuity for the widow of the member who dies early. Considerable complication is introduced here because of the terms of the 1956 Finance Act. This requires that the annuity which may be payable to a widow must not exceed the annuity for the member. If each premium were expressed as securing a particular amount of annuity then the limit on the widow's annuity would be the amount of annuity for which the member has already paid premiums, so that in the early years only a very small widow's annuity would be possible. For this reason contracts under Part II of the plan are written on the assumption that the member will pay a series of equal annual premiums to secure an annuity for himself from age 65. Thus the member is contributing from the outset for a substantial

annuity for himself so that the limit on the annuity which can be provided for his widow is substantial also.

The contract is drawn on the assumption that the premiums will be invested at the guaranteed minimum rates of interest already referred to. Additional amounts of annuity will be credited when any premium is paid at a time when a higher rate of interest is appropriate.

The benefit on death before the member's annuity commences under the part of the contract described above is a return of the premiums paid, with interest at the rate at which they are being accumulated. In order to provide the widow's benefit there is a subsidiary portion of the contract to provide an augmentation from the level of the annuity which may be secured by the lump sum described above up to an amount approximately equal to one-half of the annuity which the member could expect at age 65. In the later years of the policy the accumulated credit of the member might purchase an annuity for the widow of an amount greater than this and in these circumstances the greater annuity would be paid.

If a member dies before payment of any annuity but after age 65, an annuity for his widow would be provided by the return of the contributions paid by the member for his side of the contract. The member would also have the option on retirement to take a reduced pension in order to provide that there should be an annuity to his widow after his death.

Part III of the plan consists of a series of ordinary life assurance tables as operated by the Standard Life Assurance Company but providing particularly favourable terms. It is pointed out in the booklet that some members may feel that the complete loss of control of their money when contributed to a scheme approved under Section 22 of the 1956 Finance Act is a serious disadvantage, completely outweighing the relief of taxation which they could obtain. This part of the plan is provided, therefore, for the benefit of such members and premiums paid under this part only secure limited relief from taxation in the same way as other life assurance premiums.

On the other hand, the sum assured of a maturing endowment assurance may be applied to purchase an annuity for the member and this would be taxed only upon the interest content.

It is now nearly two months since The Institute of Chartered Accountants in England and Wales produced a scheme for their members to provide benefits under Section 22 of the 1956 Finance Act, and it is interesting to draw a comparison between the two schemes produced by these bodies who are professionally interested in matters of taxation and investment.

Part I of the Scottish Institute's plan is broadly similar to Section A of the scheme for the English body. The difference between these two schemes lies in the terms of the rates used and of the future guarantee of these rates. An examination of the scales of premium will show that at any time when the yield of Consols exceeds 4 per cent the rates available under the Scottish plan are better. It must be remembered, however, that CARBS offers the alternative of a member's annuity geared to the price of growth equities.

The terms of the widows' sections of the two schemes are so different that a comparison is not possible. The greater simplicity of the CARBS scheme has much to commend it but there are circumstances in which a very much smaller benefit could be paid. This arises particularly if the wife were to predecease her husband and he, too, were to die before retirement when the CARBS scheme gives no return of contributions paid before the death of the wife, whereas the Scottish plan will give a return of the premiums which were being applied to purchase the member's annuity. On the other hand, the fact that no such benefit is paid in these circumstances has enabled CARBS to produce a particularly attractive annuity.

It is also of interest to note that CARBS has provided a section under which there is a special annuity payable on disability of the member and that the Scottish plan does not take advantage of the power provided by the Act to allow this benefit, although an annuity actuarially equivalent to the premiums paid is, of course, available.

We feel that the Scottish Institute is to be congratulated on the production of a scheme which provides for its members the most advantageous terms available at the moment and sets clearly before them the relative advantages of arranging contracts within the provisions of the 1956 Finance Act or through the normal scope of a Life Office's activities.

THE AMERICAN TAX BAR

THE eightieth annual meeting of the American Bar Association was adjourned last month from New York to London where the opportunity was taken to have joint discussions with British lawyers on common problems. One of the events was a meeting of the Taxation Section of the Association in London on July 25th when four talks were delivered by distinguished tax lawyers, two American and two British. Members of the English Bar specializing in taxation, as well as their solicitor counterparts, were invited to this session and an appreciable number availed themselves of what must have been a unique opportunity.

The infinite variety of industry in America, its vast area and population, and the modernity and vigour of approach of its business and professional men, have produced a rapid development of its tax law and practice from which the United Kingdom can learn a very great deal. The substantive law is very much more complicated, applying as it must to diverse circumstances in different parts of the United States, while the existence of a written and jealously observed constitution, which preserves a high degree of autonomy for the individual States, has brought about complications in appeal procedure from which this small country is relatively free. In the light of these facts, it is startling to be told that the percentage cost of collection of income tax in the United Kingdom is much higher than in the United States. The American speaker who revealed this went on, however, to point out that the system of self-assessment threw additional expense on industry which it was able to claim as a deduction, so that the ultimate cost to the American Government was higher, though still not so high as in the United Kingdom.

Anyone who thought that American lawyers were so satisfied with their own system as not to be interested in the English one would be quite mistaken. MR THOMAS N. TARLEAU, of New York, gave a talk on the British income and surtax system which was remarkably accurate and informative. This was all the more impressive in that even for British specialists in this field of law the precise processes and procedures by which particular assessments come into existence

are a matter of some uncertainty. Another speaker, MR ERWIN N. GRISWOLD, Dean of the Harvard University Law School, gave a brilliant address in which he showed a great mastery of some recondite problems of the difference in British law between income and capital, and the subtleties of the decision in *Sharkey v. Wernher* (34 A.T.C. 263).

A large proportion of the time covered by the meeting was devoted to consideration of the distinction made by British tax law between income and capital gains, a subject which was closely examined in a scholarly address by MR R. E. BORNEMAN, Q.C. It was his remark, that unrealized appreciations are not taxed, which later drew from DEAN GRISWOLD some provocative observations about the taxing of LADY WERNHER when she did no more than transfer a horse from her stud to her racing stable. It is evident that American lawyers share some of the bewilderment which this now famous decision has produced among British tax practitioners. On the general question of why the United Kingdom does not tax capital gains, DEAN GRISWOLD produced a novel explanation. He pointed out that income tax was first imposed at a time when government was in the hands of landed proprietors who did not indulge in trade. They might well wish to tax traders, without taxing themselves on surplus proceeds of sale of their estates. In America, on the other hand, real estate speculators who moved westward with the frontier were an important element in the business community and their profits were enormous.

What clearly emerged from the capital gains discussion was the fact that the introduction of a capital gains tax would not necessarily be a bad thing for the taxpayer; many accretions which are now taxed at the full rate as profits of a trade might well become taxable at the lower capital gains rate.

MR F. HEYWORTH TALBOT, Q.C., delivered a stimulating address on the question of official rulings. He advocated a change in the law under which it would be possible to require the Inland Revenue to state in advance whether or not a particular transaction would be taxed.

THE FINANCE BILL – XII

ESTATE DUTY

The Disappearing Trick

CLAUSE 38 deals with estate duty avoidance by means of what is known as 'the disappearing trick' and by means of the issue of bonus shares in such a manner as to obtain the benefit of the decision in *Attorney-General v. Oldham* (19 A.T.C. 370). The clause applies only to deaths occurring after it has come into force but in general it applies to all transactions, whether effected before the Bill was introduced or not. However, where the gift was made (or the life interest determined) before April 10th, 1957, a new sub-clause (18) provides an option in certain cases to elect that the old law should still apply. The option arises where, if the deceased had died on April 30th, 1957, and the new law had then been in force, duty would have been chargeable on property which was not in fact then chargeable, or on a value determined as at a date earlier than under the old law.

The reason why the option is given is that the new rules in certain cases reduce the estate duty charge, and it is not intended to deprive anyone of this advantage. The option can be exercised at any time within twelve months after the death, or longer if the Inland Revenue allow.

Hitherto, where a gift *inter vivos* has been deemed to pass on the death of the donor, it has been valued in its then state, and whether or not it was still in the hands of the donee. Accordingly, if it had ceased to exist, the donee escaped duty even though he had disposed of it for full value. On the other hand, if he had sold the gift for a song and its value had subsequently appreciated, he paid estate duty on something he had never enjoyed. Some time ago the Inland Revenue made a pronouncement to the effect that they had been advised that they were entitled to levy duty on the proceeds of sale, but this view was categorically rejected by the Courts. Clause 38 (1) now directs that the estate duty Acts are to apply as though any property received by the donee in substitution for the gift had been comprised in the original gift, except where the original gift was currency. Clause 38 (2), by way of explanation of the expression 'in substitution', mentions three examples:

- (a) benefits received as consideration for the sale, exchange or other disposition of the gift;
- (b) (in relation to the gift of a debt or security) benefits received in satisfaction or redemption;
- (c) (in relation to any right to acquire property) any property acquired in pursuance of that right.

Clause 38 (3) modifies clause 38 (1) where the donee makes a further gift of the property he has received, or voluntarily divests himself of it otherwise than for a consideration worth not less than the property at the time of the disposition. In such a case he is to be treated as continuing to have possession and enjoyment of the gift. The sub-clause does not apply to gifts etc. back to the original donor, nor to agreements with an authority having the power of compulsory purchase. Where the donee has an interest in some property and it merges into a greater interest belonging to him in the same property, then for the purposes of clause 38 (3) he will be treated as divesting himself of the original interest.

Bonus Issues

Clause 38 (4) has the effect of nullifying the *Attorney-General v. Oldham* decision. If shares or debentures are included in a gift and the donee, as holder, receives further shares or debentures without having to give the original ones in exchange, the additional shares and debentures are to be treated as comprised in the gift. The donee may, of course, have been required to give consideration for the further issue, i.e. it may be a rights issue. In those circumstances sub-clause (5) provides for the deduction of the consideration he pays, if this further consideration is not provided by the original donor. Sub-clause (6) makes it clear that consideration coming from the company itself, or from another company under the same control, as by applying accumulated profits in partly paying-up the new shares or debentures, is not to be deducted.

Settled Gifts

Where the donee has predeceased the donor, the above provisions are to be applied as though

he had not died, and as though the acts of personal representatives are his own acts (sub-clause (7)).

If the donor has settled the gift, and it is deemed to pass on his death, the foregoing provisions are not to apply. Instead, the provisions relating to *inter vivos* gifts are to apply as if the property given had been the same as the property comprised in the settlement at the time of the donor's death, except in so far as the latter property neither is, nor represents, nor is derived from, property originally comprised in the gift. However, if the settlement comes to an end before the donor's death, the property then comprised in it is treated as the property passing on his subsequent death but it is valued as at the date the settlement ended (sub-clause (8)). This sub-clause does not tax that part of the settlement property which goes to the donor himself on the termination of the settlement. Moreover, accumulations of income are not to be treated as derived from the gift (sub-clause (14)). Where the donee himself settles the gift (including involuntary settlement by his intestacy) the same rules apply as if the settlement had been made by the gift (sub-clause (9)).

Aggregation and Marginal Relief

It is clear that under the new rules estate duty will often attach to property in which the donor never had an interest and which, therefore, under the ordinary rules, would not be aggregable with his estate. As this relief by a side wind is not desired, sub-clause (10) provides that the donor is to be deemed to have had an interest, except in so far as the property is, or is derived from, property originally comprised in the gift in which he never had an interest. This proviso to sub-clause (10) was inserted on the suggestion of a back-bencher; there can, however, be few cases of a man giving something away in which he has no interest.

Sub-clause (11) introduces a welcome marginal relief in the case of a donee who receives *inter vivos* gifts amounting to rather more than £500 from the same donor. Gifts not exceeding £500 have been exempt since 1949. After the passing of the Bill the estate duty on a gift over £500 is not to be greater than the actual excess over £500. This new relief is not to affect the ordinary marginal relief where the aggregate property

passing is just enough to attract a higher rate, nor the relief in respect of the aggregation of a small estate with settled property.

Life Interests

Clause 38, besides dealing with *inter vivos* gifts, makes corresponding provisions in the case of the determination of a life interest under a settlement, where the life-tenant dies within five years or retains an interest in the settled property. The property to be taxed is the property comprised in the settlement at the death, but excluding property which is not derived from property in which the life interest subsisted immediately before that interest was determined (sub-clause (12)). Again, accumulated income is not to be taxed under this new provision.

Sub-clause (12) (b) deals with aggregation. It says that if the deceased had at any time an interest under the settlement or if the settlement was made by him or made, directly or indirectly, at his expense or out of funds provided by him, he is to be deemed to have had an interest in the property passing by reason of the determination or disposition of the life or other limited interest. Of course the ordinary case where liability arises under Section 43 of the Finance Act, 1940, is that of a life-tenant disposing of his life tenancy in favour of the remaindermen and then dying within five years. In such a case it will obviously be necessary to aggregate the settled funds with the other property passing on the death. However, there may be cases where an interest is going to determine on someone else's death, as where a beneficiary has an interest *pour autre vie*, in which case these new provisions as to aggregation may increase the liability.

Where the settlement comes to an end before the death, the settled property at that time will be treated as the property in which the interest subsisted. It will include any consideration given by the deceased (not being an interest under the settlement) but will exclude such part of the settled property as the deceased took absolutely, since this, of course, will pass as part of his free estate – if he does not spend it in the meantime. The property will be valued on the normal estate duty lines but not as at the date of death (since it might not exist by then); it will be valued as at the date the settlement was terminated.

(Concluded.)

TAXES IN PRACTICE AND THEORY

A LIGHT APPROACH TO A DARK SUBJECT

by H. A. Sisson, O.B.E., M.A., F.C.A.

RATES and taxes are necessary evils; there is no intrinsic good in them. In fact, all taxes are bad, and a 100 per cent tax is 100 per cent bad. Every year we have a Budget which causes much – often heated – argument; and every year our taxes become more complicated, till now it is almost impossible for anyone to calculate exactly how much he has to contribute, directly and indirectly, for the upkeep of the State in any year.

In this article the author tries to stand back and take a detached view of our taxes, first as they are, and then as they might be if based upon pure reason.

In practice, our taxation is almost entirely divorced from reason; and is based on a mixture of expediency and sentiment, often influenced by party prejudice and puritanism. The result is a chaotic mixture of taxes and charges which cost many millions of man-hours to compute and collect, and are wasteful by providing fees for lawyers, accountants, and others, who might be more usefully employed in making roads.

The Present Position

Let us consider our various kinds of tax in order of magnitude:

Taxes on income, £2,296 million. A tax on income is, of course, reasonable enough, but unfortunately our income tax laws, dating back to 1803, having been breached by ingenious tax dodgers, and badly patched for over 100 years, are now so complicated as to be almost incomprehensible. In a previous article it was suggested how this mess might be cleared up.¹ Suffice it to say here that surtax should be amalgamated with income tax, and assessed and collected at the same time, and that tax under Schedule A on the notional income from real property should be abolished. Profits tax, which is a complicated additional income tax on the profits of limited companies, is merely based on expediency, because limited companies have no vote.

Taxes on expenditure, £2,045 million. Taxes

The figures quoted in this article are taken from the Government Blue Book on *National Income and Expenditure, 1956*, which gives statistics for the calendar year 1955, the latest available at the time of writing.

¹'Simple Income Tax', *The Accountant*, September 25th, 1954, page 315.

under this head are of four main kinds: purchase tax, which is intended to be a tax on luxury expenditure; import duties, devised to protect home industries; the tax on cars and petrol; and taxes on certain enjoyments (which are thought by some to be harmful), such as alcoholic drinks, tobacco, entertainments, and gambling.

Purchase tax. A flat-rate purchase tax on all expenditure would be sound enough, but the present tax, which attempts to gauge the proportion of luxury in any given article, has resulted in a Civil Servant's dream, with vast schedules drawing fine distinctions and continually being amended. There are many anomalies; thus, caviare and *foie gras* are exempt, but tooth-paste and office stationery are not.

Protective duties. The encouragement of industry is not a logical basis for taxation. The effect is, of course, that the user either pays more for the same article, or the same for an inferior article produced at home, compared with what he might have got from abroad but for the duty. When it is desired to foster a home industry, this should be done by direct subsidy and not by taxation.

Taxes on cars and petrol. If the money from these taxes had been used for making better roads, the taxes would have been reasonable, but as it is, they can only be justified on the grounds of expediency.

Taxes on enjoyment. These are more in the nature of fines than of taxes. Many think that alcohol, tobacco, and gambling, are wholly bad and should be prohibited, while others regard them as innocent enjoyments. It is common ground, however, that over-indulgence is harmful, but the same might perhaps be said of food, golf, and dancing. As a compromise, a tax or fine is charged on those who drink, smoke and gamble. Thus, if one drinks a pint of beer, one has to pay *rod* to the Government. It is wrong in principle to raise money in this way. Consider a man whose family is starving because he is drinking himself to death – the Government takes most of the money. The Government also makes something out of a cashier who steals mopey to put on a horse. If we agree to this, why not sell opium, hashish, and cocaine subject to a heavy tax? The proper way to deal with excessive drinking, smoking and gambling is by control and rationing. With the aid of the Post Office it would not

be difficult to ration gambling, but the details cannot be given here.

Local rates, £476 million. These are based on the rent a hypothetical tenant would pay for the premises, and provide much profitable argument between experts. When, however, it comes to assessing the rent that a hypothetical tenant would pay for a railway station without the rest of the line, or for a section of gas-main passing through an area, the whole system breaks down.

A more logical way would be to zone the area and charge so much per square yard for the land occupied, irrespective of what is on the land. Zones and rates per square yard would have to be revised from time to time, but this would be less expensive than a revaluation of all the properties in the area.

Death duties, £184 million. There can be no justification for death duties. Why, because a man dies, should a heavy capital levy be made on his assets for the purpose of meeting the day-to-day running of the country? The country should be run out of income, and if taxes were correctly designed, the deceased will have paid his proper share each year while he was alive. Moreover, any income received on the capital he leaves will also bear its proper share in each future year.

Stamp duties, £75 million. These are quite unjustifiable, and should be as extinct as the window tax, which, if reimposed today, would bring in much revenue. The 2d receipt stamp and the 2d stamp on cheques cannot be justified on any reasonable grounds and, in fact, fall more heavily in proportion on the small trader than on the large.

The stamp duty on the transfer of properties is no more rational. One can buy a ship for half a million pounds without stamp duty, but if one buys a house for £500, the Government charge is £5, and the charge for buying £500 worth of shares is £10. Why?

What are the Alternatives?

It is clear that our taxes have little basis in reason, and are unnecessarily complicated and expensive to collect. In the following paragraphs a purely logical alternative is considered.

In essence, taxes are the subscription one has to pay for the privilege of belonging to an organized community. The ideal country would be run like a club, and every member would pay the same subscription. In the United Kingdom, if children under two were free, and then until aged 21 were allowed at half-price, the subscription would be about £126 a year for an adult and £63 for a

child. This seems rather a lot, but it must be remembered that the subscription includes free education, sickness insurance, and a small retirement pension. Subscriptions could be made payable quarterly in advance, and failure to pay within six months of the due date would render the member liable to expulsion.

Once the subscription was paid, there would be no other taxes, direct or indirect, no death duties, no stamp duties, and no local rates to pay. This would mean that we could get rid of a vast army of officials connected with income tax, estate duty, purchase tax, Customs, and local rates; and we could also dispense with the services of a great number of accountants and lawyers, who spend much of their time dealing with taxation. The saving would be such as to allow a significant reduction in the annual subscription.

The plan seems so simple, so fair, and so delightful, with wines, spirits, beer, and tobacco free of duty, that one wonders why it is not adopted, until one realizes the difficulty in regard to those members who would be unable to pay the subscription. It might perhaps be possible to form an inferior club with a smaller subscription in an undeveloped country, and to send them there; but what if they were unable to pay even the minimum subscription?

A Flat-rate Income Tax

If we cannot get rid of the unfortunate members who are unable to pay their subscription of £126 per annum and £63 for each child over two, we must find some other logical basis for raising the money to run the country. The obvious answer is that each should pay a subscription according to his income. This would require a flat-rate tax on income amounting to about 7s 4d in the £.

It might be said that a man must keep himself alive before he can pay any subscription, so we could allow for subsistence, say, £100 a year for each adult and £50 a year for each child over two. This allowance would be the same for everybody and, if those whose incomes were below the subsistence level received from the State sufficient to give them subsistence, would involve a tax of about 10s 4d in the £ on the income over subsistence level, in order to run the country at its present rate of expenditure. There would, of course, be no other taxes, duties, or rates to pay.

Half on Income and Half on Expenditure

Ten and fourpence in the £ is a high rate and might discourage some people from earning more than the subsistence allowance. To meet this

difficulty and to encourage saving, the money required for the country might be raised approximately half as tax on income and half as tax on expenditure. Suitable rates to meet the total expenditure on this basis would be about 6s in the £ on incomes over subsistence (increased to £125 to cover expenditure tax), and 5s in the £ on all consumer expenditure, including food. No other taxes or rates would be required.

No Tax on Company Profits

It should be understood that the above figures are based on income and expenditure of individuals, so that companies would pay no taxes on their income or on their expenditure; and tax would only arise when profits became the income of some individual. This would save a great deal of trouble and computation.

A complication is introduced into this theory

of taxation by those who say that subsistence and luxury blend into one another so that we should have a graduated tax running from, say, 1s in the £ on incomes just over subsistence, up to perhaps 19s 6d in the £ on very large incomes. This may be sound enough within the range of small incomes, but when it comes to the supertax on large incomes, it ceases to be reasonable.

There should be a fixed rule of taxation that no tax shall exceed 50 per cent, that is, half for the taxpayer and half for the State. For the State, which is all-powerful, to take more than half seems unfair. The lion's share cannot be justified in ethics.

It is easy to see the defects in our present system of taxation, but so long as each year the Chancellor of the Exchequer has to scrape the money together with both eyes on the ballot box, there seems little chance of improvement.

NORTH AMERICAN COMMENTARY—LXXXII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A. (Canada)
Professor of Accounting, McGill University, Montreal

The New York Certified Public Accountant,
New York, May

Hindsight and the Auditors' Liability

SUSPENDED for fifteen days in May from practice before the Securities and Exchange Commission, the firm of Touche, Niven, Bailey & Smart, in its defence, says that the Commission refused to exclude the hindsight evidence which would not have been allowed in a court of law. The auditors forced their clients, Seaboard Commercial Corporation, in their 1947 accounts, to increase their reserve for losses and contingencies from \$107,000 to \$857,729 but this proved to be far short of what was needed. The firm says that the commission assumed too readily that the fact that the firm's original estimate of \$1,350,000 so greatly exceeded the \$857,729 was evidence of their having tempered their judgment to meet the wishes of their client. To the S.E.C. contention that the \$750,000 increase should have been charged against income and not retained profits it is replied that only since 1948 has there developed an increasing tendency on the part of the profession to charge all such increases against income. The year in question was 1948 and it is contended that the matter must be judged in the light of the then existing practices.

The Journal of Accountancy,
New York, June

Accounting as a Tool of Management

The results of a survey on management services by certified public accountants, conducted by the Research Department of the American Institute of Certified Public Accountants (the new title of the American Institute), are published in this issue. Commenting on this the editorial says the accountant has not only the opportunity, but an obligation, to give smaller businesses some of the services of the controller and internal audit staff of the larger companies. Whether he should enter the field of general management advice is more controversial, says the editorial, and many think there should be a fairly sharp line between giving such advice and making management decisions which would impair the accountant's independence. It concludes that those who ignore the fact of accounting's development as a useful tool of management are deceiving themselves if they think their practices will not be affected.

Administration of Accounting Practice

Mr Marquis G. Eaton, C.P.A., President of the American Institute, considers that evidence does not suggest that American accountancy is on a

sound financial footing. While the American Institute, he says, has recently appointed committees on professional statistics and professional fees they have no budgets and are volunteer committees, very different from a full-time paid staff. The American Dental Association and the American Medical Association, on the other hand, have bureaux of economic research and statistics, and public relations departments, to help their members handle business problems. C.P.A.s charge industry fees so low, says Mr Eaton, that they cannot compete for personnel, and he points to their long working as sure evidence of the unsound financial basis.

Citing the different levels of accountancy practice – the upper, shallow level of monthly write-ups, the deeper level of auditing, below that tax-work and then management work – Mr Eaton says that the deeper he goes the more useful is the accountant to the public. The profession has no right, he continues, to force the public to turn to others for certain accounting skills, and he fears that the vast growth in the profession is too much of it horizontal expansion, quantity rather than quality. He calls for statistical information, comparison with other professions, consideration of whether present financial statements, audit reports and tax returns are fully acceptable to investors, analysts and others, and for what other services C.P.A.s may be equipped. As individuals, accountants must constantly enlarge themselves, he challenges, to meet their enlarged responsibilities.

Income Accounting and Social Revolution

In an article which is to be the introductory chapter of a new book on *Income Determination and Social Revolution*, to be published in the autumn, Mr George O. May, F.C.A., C.P.A., says that for half a century the accounting profession has been trying to impose on the subjective concept of income an objective and reasonably narrow range of meanings. He mentions landmarks: the fiat of the American *Accounting Research Bulletin* 23 that income taxes are an expense to be allocated like other expenses; the study group on business income appointed in 1947; the pronouncement of the American Institute's committee on accounting procedure, 'acting with surely uncalled-for finality', as to the relation between changes in price level and business income – one of the major issues which the study group was considering. Changes of price level and the lapse of time are crucial factors, says Mr May, which do not enter into the present-day accounting concept of income.

Mr May does not consider that the profession has met the changing pressures, problems and obligations of the last quarter-century quickly and adequately, for the need for new standards in income determination has not been brought to the front by its development. He would have it create gradually a philosophy or mode of thought in regard to the income of business corporations by which income determinations could be judged, though he thinks it would be still more unwise today than it would have been a quarter of a century ago to attempt unaided to formulate concepts to which all procedures might be required to conform.

The Canadian Chartered Accountant,
Toronto, June

Operations Research

Dr Peter J. Sandiford, of Messrs Price, Waterhouse & Co's management advisory service, Toronto, defines operations research as a newly-developed staff function through which the training and talent of scientists may be teamed effectively with the skill and experience of managers for the solution of business problems. In areas of major importance, such as capital allocation operations, research analysis pays in clarity and precision, he says, as against the alternatives of delegating the task to an existing part of the organization or a special committee. Operations research is best organized as a staff function, a rather informal team, says Dr Sandiford, of from two to five members working full time on one project and representing a wide range of professional training. Projects may range from the grand strategy of long-range policy planning through the strategy of inventory policy down to the tactical setting of re-order points and quantities in inventory control.

Dr Sandiford says there is a close interaction between operations research and accounting, for the accountant is the source of the data on which the analyst must work. Since its establishment in Canada in a formal way in 1951-54, by two oil companies, a paper company and a large electrical company, operations research has been adopted by from ten to twenty other companies. Dr Sandiford concludes that the large 'pay-offs' attainable are likely to induce faster growth in Canada, and that accountants will always play a significant part as members of teams or in close association with them, for obtaining accurate data as basis for solutions. In Toronto, there is an Operations Research Society, of which Dr Sandiford is a past president, and plans are being discussed for a national society.

TRAINING FOR THE PROFESSION — II

by W. E. PARKER, C.B.E., F.C.A.

II. PERSONAL VIEWS

(41) I make no apology for having quoted so extensively from the published statements and reports on which I have so far drawn to provide the basis for this paper and for the discussion which it is intended to promote. I have quoted the various passages for what seemed to me to be three good reasons: first, because they display many of the relevant problems, some of the actual or potential solutions and a good deal of the reasoning behind the views expressed; second, because they represent carefully considered expressions of the collective opinions of groups of well-qualified persons who have given much time, study and thought to the subject; third — and not least important — because it is fitting that Institute members should be familiar with, and reminded of, the specific terms of the obligations laid on them and of the relevant pronouncements of the Council. I propose in the remainder of this paper to reconsider some of the problems and to make such personal contribution to the discussion and solution of them as I am able from my own thinking and experience. I should emphasize that any views I express are personal and not authoritative.

The Fundamental Questions

(42) At the risk of covering again a number of points already discussed or touched upon above, I would put the following as the four fundamental questions which arise on the subject of training.

- (1) At what point in the education and training of a would-be professional accountant should the emphasis turn from liberal education to specialized study?
- (2) Should the theoretical side of professional study be organized under full-time academic arrangements or combined, primarily as 'home-work', with substantially full-time employment in a practitioner's office; or is there scope for some combination of these alternatives?
- (3) What standards of proficiency should be expected of candidates before they are regarded as eligible for Institute membership?
- (4) What further steps can be taken to improve the standard of training and thereby the prospects of the candidates when they present themselves for examination?

(43) Before, however, considering these questions in detail I should perhaps state two personal convictions which permeate my own outlook. In the

first place I feel certain that our Institute is wise to devolve, as it does, on individual members much of the responsibility for selecting and 'fathering' the entrants to the profession. Examinations, rules and standards can all be prescribed by the central authority, but at the perimeter each entrant is an individual human being differing from every other in background, in character, in characteristics, in type of ability, in degree of maturity, in quality of attainment. No set of rules of general application can hope to be sufficiently selective to cater adequately for all these differences and shades of difference. In the second place I feel equally certain that, when once they have been accepted as suitable entrants, pupils should be treated not as schoolboys or students but as professional men. The significance of these views will become apparent.

Liberal Education and Specialized Study

(44) First then as to the time at which the emphasis should shift from liberal education to specialized professional study. On this I confess to grave doubt whether, in general, it is wise to accept young men into professional training at as early an age as 16. For the reasons indicated in the previous paragraph I can conceive of exceptional cases where such a course would be justified. But, for the majority, I do not see how by that age they can have acquired in sufficient measure the qualities (a) of a trained mind, (b) of reasonably wide cultural tastes, and (c) of developed character as exemplified in the responsibility and leadership which normally falls to worth-while youngsters during the years at school between the ages of 16 and 18.

(45) I should have thought it essential that young men should start their professional training with a well-trained mind. That training of the mind will continue during their professional training — and it may well be that accountancy provides as good training of that kind as any other subject — but unless the pupil starts his professional work and study with a mind already well trained I would think him so badly handicapped as to be unlikely either to 'finish the course' in the time required or to make a good enough professional accountant afterwards. I accept the Institute's Preliminary examination and the various exempting examinations as the best test of a *minimum* standard of general education which it is practicable at present to prescribe for universal application: any raising of that universal minimum might have the technical consequence of precluding more than a few candidates who individually were quite suitable for acceptance. But I consider it the duty of principals to be selective and to aim higher than the prescribed minimum. I suggest that five or

The second part of an address delivered on July 12th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

more subjects at 'O' level in the G.C.E. examination indicates no more than that the candidate has reached the educational standard we should expect of a boy aged 15 or 16: it does not mean that his schooling can then be regarded as complete. Unless he is exceptional he then still lacks the important benefits of the sixth form teaching and study which would follow in the next year or two – a period when, if well taught, he will begin to get away from the blackboard, to learn how to study on his own and to take over the initiative from his teachers. In passing I feel bound to say that in my belief much of the demand from articled clerks for more lectures and oral tuition comes from those who have not acquired during their last year or so at school the habits and methods of private study.

(46) Wide cultural tastes are, in my opinion, no less important in a profession which touches on so many aspects of human life and activity and calls for so much versatility. Not least are wide interests important because without them it is so very difficult to see one's professional work and problems in a proper perspective. The young man who has not developed his reading, his tastes and his general interests before embarking on his professional training will find all too little time to do so during his training period, and by the end of it may well have lost the inclination.

(47) Youthful experience of carrying responsibility and of exercising leadership seems to me to be almost an indispensable aid to the full development of the qualities of moral courage, independence and fair-mindedness which are themselves indispensable to a chartered accountant.

(48) I would hesitate to press for a raising of the age limit for entry (unless it were coupled with a power to make exceptions in approved cases), but for the reasons given above I think that practitioners, in considering would-be entrants, should take special care before accepting those under the age of, say, 17½. The last pronouncement of the Council on the age of entry was made in August 1946. The Council then said that it had decided not to adopt a suggestion that the age for beginning articles should be raised. It took the view that, without in any way discouraging a later age of entry, it would be unjust to close the door to the younger entrant whose capacity and education justify the beginning of professional training at an earlier age and whose circumstances may render it necessary. I interpret this statement of ten years ago as being consistent with the view I now express, namely, a preference for candidates older than 16 but a reluctance to rule out the 16-year-old entirely.

(49) For those who are able to go on to a university I see no objection to their reading subjects which, while providing a good mental discipline, have also some direct relevance to a subsequent accountancy career. But I agree whole-heartedly with the Coun-

cil's emphasis on the value of a liberal education and on the fact that the undergraduate reading of 'vocational' subjects should not be undertaken as though it were 'a vocational training course'. My own inclination is to encourage young men, when choosing their university subjects, to choose them for their own sake regardless of a prospective career in accountancy. If they choose, for example, philosophy, classics or history they are likely to look back in later years and be thankful that they did not miss the last opportunity open to them for advanced study of a subject having a considerable cultural bearing on but no direct connection with the profession which will have been absorbing most of their life ever since!

(50) If this is a sensible view it may contain part of the explanation for the disappointing response to the scheme for a combined articles and 'approved' university degree course over a period of 5½ years. A more important part of the explanation may be that, since the period of the combined course is barely shorter than that of the normal three years at the university followed by three years' articles, those who are going to the university see no great merit in committing themselves in advance for the best part of six years ahead. The concession of exemption from the Institute's Intermediate examination has evidently failed to act as any strong inducement to make use of the scheme, and I cannot help feeling that it was an unwise concession anyway.

(51) Great as are the cultural advantages of university life and study, I imagine that, even if it were thought desirable, it would not be practicable for some time to come to confine entry into the profession to university graduates. At present, provided the entrants are selected with care, I do not think the profession need hesitate to take still the majority straight from school; but the pattern of national education is changing a great deal and the time may come when graduates can become the rule rather than the exception. Even then I should want practitioners to retain a discretion to take non-graduate entrants.

Cultural Function of Students' Societies

(52) For those who have not had the advantages of a university education, there is a cultural gap which the profession must do what it can to fill. Here the students' societies have a part to play, as they and the Council fully recognize. The following passage is taken from a statement issued by the Council in August 1951.

'It is the general facilities of the societies which are regarded as being of the greatest importance. The students' societies are educational associations. Active membership of a students' society is an important aspect of the education of a chartered accountant, apart from any consideration of the examination syllabus. The societies arrange lectures, discussions, mock meetings and debates, usually on

subjects of importance in the profession and related to the wider education of the future members of the profession, but not necessarily selected with a view to preparing students for the examinations of the Institute.'

(53) The statement goes on to explain the value of such arrangements and mentions as one of their benefits the opportunities which they provide for students to meet one another for mutual discussion. In my view this provision of facilities for students to meet, discuss and argue is by far the most important single contribution which the students' societies can make. I support strongly their practice of arranging short residential courses, believing that the worth of those courses lies much more in the cultural value of the informal contacts and discussions which take place outside the main lecture-room than in the professional knowledge and experience which is dispensed by the set speakers. It would, however, be a mistake to suppose that such activities of the students' societies can provide a substitute for university life. The cultural benefits of the latter cannot be derived in the comparatively small doses which are the most that the students' societies can be equipped or expected to provide. The limitations of the students' societies in this respect must, I think, be recognized and, bearing in mind the pressure on pupils when once they have embarked on their service under articles, I would deplore efforts on cultural grounds to extend the societies' residential courses beyond the scale commensurate with the limited objective which they can usefully achieve.

Arrangements for Theoretical Study

(54) To me a much more difficult question is that of the extent, if any, to which the theoretical side of professional study should or could with advantage be organized under full-time academic arrangements. The recent recommendations of the American Commission are wholly consistent with what seems to me to be the inherent inclination of Americans to divide any task into a number of components and then to deal with each component separately. The world has seen the success of this technique in such fields as productive industry, and it is evidently capable of application in some degree to tasks of all kinds. Provided the academic study recommended by the American report were followed by an adequate period of practical experience I can well believe that the ultimate product would be a highly competent professional accountant. But time is an all-important factor and to me at any rate the American proposals appear to be in principle uneconomical of time. If in this country the first of three post-graduate years were to be spent in the study of principles largely isolated from their practical application, I doubt very much whether only two subsequent years of practical experience would produce a practical accountant as well equipped as ought to be the present graduate chartered accountant in Britain after three years of

articles under existing arrangements. My doubt stems from the belief that at any rate in Britain,

- (a) the theoretical principles underlying our professional work represent much the smaller part of the knowledge to be acquired;
- (b) those principles are best absorbed gradually over the whole period of articles and against a practical background;
- (c) if time is to be used economically, theoretical study and practical application must proceed concurrently so that each can bear upon and illuminate the other;
- (d) those who aspire to be chartered accountants must learn from the outset to combine study with practical work; the need for that combination will not cease with the passing of the final examination!

(55) This is not to deny that there is a good deal in an articulated clerk's curriculum which could be, and in actual fact often has to be, learnt from books and lectures unaided by practical experience. In recent years, for example, few articulated clerks can have had much experience of insolvency work and few at any time will have encountered a formal arbitration. I have always wondered whether most of the general commercial law included in the syllabus could not be better studied under academic arrangements.

(56) I have also wondered whether in the field of accountancy and auditing the combination of study and practical experience under articles would not yield its benefits much more readily and abundantly if those entering into articles had first received some sort of elementary general 'briefing' coupled with a good theoretical grounding in book-keeping. If it were practical to make the necessary arrangements, I would like to borrow from the American ideas to the modest extent of requiring would-be entrants first to undergo something like an eight weeks' full-time course of book-keeping and of general introduction to the work of the profession (which I regard as starting where book-keeping finishes) and then to take a short 'passing in' examination on the subject-matter of the course. The object of the course and its related examination would not be to select suitable entrants but to ensure that the entrants selected did not start their articles until they were ready to derive from their practical work maximum value from the very outset.

(57) As to the legal and other ancillary studies, the solution proposed by the Scottish Institute's Committee is an interesting one. Even, however, if it were practicable in England and Wales, I would question whether, apart from other considerations, it makes sufficient allowance for a proper *spread* of these studies. As I understand the recommendations, the whole of the general study of mercantile law (along with that of economics) would be condensed into the 'academic' third year of five years' articles. For the English Institute, whose syllabus does not now

include economics as a separate subject, I believe a solution might be to lighten the law side of the syllabus. It seems to me that in practice what a chartered accountant needs in regard to general mercantile law (i.e. apart from the law relating specifically to companies and partnerships, with which he is likely to be closely concerned) is no more than an awareness of the most elementary principles coupled with sufficient experience to recognize where an important legal point may arise and knowledge of where then to look or go for further information. Looking again through the legal questions in past Final examination papers (and it is the questions, not the marking of them, which set the standard of study and tuition) I wonder whether the legal knowledge which our examinees are led to try and acquire is not appreciably greater than is called for, at any rate in the face of the conflicting claims of other subjects. I well recall that, when studying for my own Final examination, I found myself so entailed in the legal subjects that I almost forgot I was taking primarily an accountancy examination. Here again, however, opinions may well differ. It can be said that it is during the period of the articles that articled clerks should acquire the widest possible knowledge of those aspects of the law which are at present dealt with in the syllabus. They will later forget a great deal of it but they will nevertheless be left with a kind of subconscious background which can often stand them in good stead in later years. If they do not acquire this background during their student days they are never likely to do so. Moreover there is a danger that one can go on lightening the scope of a subject until there ceases to be any real value in including the subject at all. I appreciate the force of these counter-arguments but I hope that even so there is room for some easing of the articled clerk's legal studies.

(58) If (a) articled clerks could receive a good theoretical grounding in book-keeping coupled with a general introductory briefing before they start their articles, and (b) the legal side of the syllabus could be lightened, I should feel satisfied in my own mind that, with proper attention from principals and with the normal study leave for lectures, courses and so on and a total of six months special study leave, our existing arrangements for the theoretical training of articled clerks represented at least as good a solution of that particular problem as any alternative which has so far been suggested.

(59) In reaching that conclusion I am influenced by the importance of flexibility in coaching arrangements and by a firm faith in the indispensability in would-be chartered accountants of the willingness and capacity to study and learn for themselves and to do so in addition to, not in substitution for, normal office work. As I have previously indicated, I would expect the right type of candidate to have already acquired during the last year or so of his schooling the capacity to study on his own within a general

programme laid down by his tutors, and to be sufficiently adult to decide for himself in what respects and to what extent it would be worth his while to supplement that study by more specific tuition. For such the existing choice of specialized correspondence courses and additional private tuition, coupled with the daily contacts with professional colleagues in the office and with the lectures and other functions provided by the students' societies, seem to me to be admirably suited. In what proportions each articled clerk makes use of private reading, correspondence tuition and oral tuition respectively should be for him to decide. The requirements of each one will differ, but the majority ought to be, and to be treated as, professional men and not schoolboys. In my expectation, any articled clerk worth his salt would object violently to dictation as to the form and course which his studies should take. I have not forgotten my own disgust when the firm in which I was articled made me waste valuable time during office hours in compulsory attendance at lectures which they had arranged (and paid for) on a part of the syllabus which I knew quite well that I had already mastered.

(60) Combination of study with reasonably full-time office work is a state of affairs which confronts the competent chartered accountant in some degree for the greater part of his professional life. It would be nice indeed if we could only apply ourselves to our professional reading, to the new Finance Act or to the latest Council recommendation, when our minds are fresh. But in general that is not how things work out in practice. Study and research have to take second place to the current service of clients and employers, and the literature for study usually finds itself, along with much current paper work, in the brief case which is taken home at the end of a long day in the office. The sooner the would-be chartered accountant becomes accustomed to this and can develop the considerable mental and physical stamina which is undoubtedly required, the better for him and for all concerned. He has left school and must now learn to lead a man's life and to meet the heavy demands which this, like any other worth-while profession, imposes.

(61) It is a common criticism that, as a means of acquiring knowledge, correspondence courses and other forms of 'home' study are a very poor substitute for study under proper academic arrangements, even if these are only part-time. Evidently this was the view held by, among others, the Carr-Saunders Committee. I would accept this criticism fully where the student is not working in an office which recognizes a real responsibility for his professional training. I think, however, that the criticism ignores a fundamental feature of our own training, that of service *under articles*. While I maintain strongly that the primary responsibility for acquiring the theoretical knowledge needed for the Institute's examinations should rest on the articled clerk himself, he should

find that in the office of a conscientious principal he is associating daily and continuously with professional men who will regard it as a pleasure as well as a duty to help in developing his theoretical knowledge and to supplement the guidance he receives from his correspondence tutors by discussing and explaining points on which he finds himself in doubt or difficulty, whether they be practical or theoretical. In my own recollection I acquired very much of my theoretical knowledge, starting for example with my understanding of double-entry, by inviting explanations from my colleagues in the office rather than by studying my textbooks and correspondence course. Some of my colleagues were good teachers: others not so good. Sometimes pressure of work inhibited questions or curtailed explanations. But, by and large, I found no difficulty in obtaining all the oral explanations I wanted, and the very variety of exposition proved to be most instructive. I learnt that no two people explain even double-entry in the same way. If I could not understand one man's explanation, I could hope to understand another's; and the comparison of different methods of explanation stimulated one's own thinking to great advantage, much as does participation in a discussion group.

(62) Perhaps here I may again quote from the Council's statement in February 1948.

'The system (of training) is founded on practical experience, and reports of examiners show the value of such experience in enabling candidates to achieve success, in the Institute's examinations. Whatever oral tuition may be required is by way of supplement to, not in substitution for, practical training. Such oral assistance can be given effectively only by members experienced in practice. . . . The articulated clerk's contact with his principal and the seniors on his staff . . . will prove of much greater value and importance than lectures designed merely to replace existing correspondence courses.'

Standard of Proficiency on Admission

(63) The question of the standard of proficiency to be expected of applicants for admission to Institute membership must always be an anxious one. The official views of the Council of the English Institute as expressed in the statement on *Education and Training for Membership* and already referred to above are:

'A person cannot be a chartered accountant unless he knows how to *do* the work of his profession.'

'The examinations of the Institute . . . are specially designed to ensure that, before admission to membership, candidates have reached a standard of knowledge and competence sufficient to enable them to undertake the responsibilities of chartered accountants. In this respect, the Council of the Institute has a direct responsibility to the public in preserving the high standard which the designation Chartered Accountant implies.'

(64) These definitions of proficiency are perhaps narrowed somewhat by the further statement pro-

voked by the growing tendency to specialize in particular branches of the profession after qualification:

'It was decided when the syllabus was changed as from May 1947 that the examinations should remain a test of general competence and not be regarded as a means of enabling specialized study to be undertaken during the period of training.'

In the light of these statements and of the fact that, at present at any rate, the grant of a practising certificate is virtually a formality (subject to payment of the additional fee), it would seem that the standard of proficiency required for admission is that of competence to offer services to the public as a general practitioner.

(65) Many however may think that, for all the knowledge and experience which can be gained in five (or three) years' articles and tested by examinations during and at the end of that period, further experience still is needed before the right to practise should be permitted. No one would deny that the chartered accountant continues to learn throughout his career, not merely about more new things but more about old things. Familiar as we now are with, for example, the Companies Act, 1948, one is constantly finding new matter and new points in its most familiar paragraphs. The Council itself includes the following paragraph in the booklet *General Information and Syllabus of Examinations*.

'A newly qualified chartered accountant does not, by gaining admission to membership, reach the end of his labours. Throughout his subsequent career he will find many new fields of experience and knowledge, many developments in law and practice with which he must be conversant and many occasions when the value of his advice and judgment is enhanced by his mature experience.'

(66) For my own part, speaking from the practising side of the profession, I regard the two years immediately following the completion of articles as the crucial training period for the would-be general practitioner. In that period, entering it with the sound knowledge and practical background evidenced by success in the Final examination and for the first time free of the distractions and preoccupations of looming examinations, the young chartered accountant in my belief gains his further experience at a rate many times faster than the earlier experience obtained during articulated service. If that view has any general support, it may be worth considering whether, while admission to membership would confer the title 'chartered accountant' and the right to seek and take employment as such, the right to practise should in principle be withheld until the expiry of a further period of service in a practitioner's office.

(67) Possibly a somewhat similar procedure could be evolved for those wishing to qualify themselves specially for service in industry. One of our industrial members has put to me the suggestion that training should be general only up to the stage of the Intermediate examination; beyond that stage two courses of

training should be pursued as alternatives, the one pointing to the practising side of the profession, the other to service in industry. There would then be alternative Final examinations, with the option to any member who had qualified on the practising side to take also the 'industrial' Final and vice versa. I agree that for an articled clerk aspiring to service exclusively in industry a number of the subjects embraced in the present Institute examinations may seem to be poor substitutes for additional study of industrial and management accounting and directly related matters. Executorship is an example. On the other hand, my own experience in articles and later as a principal does not lead me to think that the fundamentals required to make an articled clerk a good accountant – and he must be that whatever side of the profession attracts him – can be assimilated in much under the full period of articles. If that is so I doubt whether the syllabuses for alternative Final examinations could be sufficiently different in fundamentals to warrant two distinct classes of qualification, even if these were thought desirable in principle. For admission to the Institute I would much prefer to continue to try and meet the problem by periodically adjusting the emphasis of a single examination syllabus and of the planned training of articled clerks so as to keep these as nearly as possible in line with changing emphasis in the work of the profession. If in the course of time the increasing scope, complexity and technique of the profession were to force some degree of specialization even before the completion of articles, I would hope this could be met by the devices of alternative questions, or alternative papers, leading still to a single qualification on admission rather than by alternative examinations leading to separate classes of qualification. It seems to me that a chartered accountant, whatever the field in which he intends to pursue his profession, must be expected to know at least something about all important aspects of the profession's work. I question however whether it is necessary for each chartered accountant to have attained in each subject the same minimum examination standard as every other chartered accountant. Provided the examinations continue to fulfil their primary purpose of ensuring that all candidates for admission are fundamentally good practical accountants, I wonder whether those, for example, who wish to devote more attention to management accounting at the expense of, say, executorship could not opt for alternative papers or questions reflecting that emphasis and coupling a more advanced standard in management accounting with a more elementary standard in executorship. Admittedly the fact of this specialization would not then be reflected in the designation gained by the candidate on admission, but perhaps it could be recorded in the notice sent to him of his success in the Final examination and that notice could be used by him to support any application for employment.

(68) After admission there may be a question whether some specialist designation or diploma should

be provided by the Institute for those going on the one hand into practice and on the other into industry. Is there perhaps a new use here for the much debated 'F' in 'F.C.A.'?

Means of Improving Standards of Training

(69) The last of my four fundamental questions inevitably embraces those which have preceded it. One would not examine the starting-point of professional training, the method of conducting theoretical study or the standards to be reached on admission except to see whether any changes in the existing arrangements could produce improvements. In order, therefore, to discuss the last question, the scope for improving training, separately from its predecessors I must assume that the existing general pattern of training is to continue unchanged. Even so some repetition cannot be avoided.

(70) To recapitulate, the cardinal features of the existing pattern of training in the English Institute are:

- (1) The system of entry into the profession through the service of articles with a principal who is a practising member.
- (2) The delegation by the Institute to principals of the major share of the responsibility for selecting the future intake and for seeing that the candidates for admission to membership are fit and proper persons to be admitted.
- (3) The emphasis on practical competence as opposed to mere theoretical knowledge.
- (4) The emphasis on private study (solid private reading) in spare time as the right method for prospective chartered accountants to acquire the theoretical knowledge necessary to achieve practical competence.

(71) The effectiveness or otherwise of the system of articles, coupled with the delegation of so much responsibility to principals, seems to me to be the crucial factor in determining whether our Institute's time-honoured pattern of training (a) provides the best all-round solution to the training problems and (b) produces the best results of which it is capable.

(72) Every system will have its shortcomings: perfection is beyond practical reach. Judgment has to be based on broad results, not on specific cases. I am not inclined to interpret the high proportion of failures in the Institute examinations as evidence that our present system is inferior to possible alternatives. It can equally be interpreted as evidence of the high standard which is set for admission to Institute membership. I do think, however, that it points to insufficient selectivity on the part of practitioners in accepting articled clerks, and it may well point also to inadequate recognition and fulfilment by principals of the obligations into which they enter when the deed of articles is signed.

(To be concluded.)

Weekly Notes

The Institute's Examinations

A total of 2,338 candidates sat for the examinations of The Institute of Chartered Accountants in England and Wales held last May.

There were 976 candidates for the Final, of whom 455 (46.6 per cent) passed and 521 failed; in the November 1956 examination, 438 (42.6 per cent) passed and 590 failed. The First Certificate of Merit, the Institute Prize, the W. B. Peat Medal and Prize, the William Quilter Prize (shared with one other), and the Plender Prize for the Advanced Accounting (Part I) paper were won by Mr Jack Liversidge, of Leeds. The Second Certificate of Merit, the Walter Knox Scholarship and the Frederick Whinney Prize were won by Mr John Michael Lytton Jaeger, also of Leeds, and the Third Certificate of Merit was won by Mr James Donald Hanson, of Halifax.

In the Intermediate there were 1,235 candidates, of whom 614 (49.7 per cent) passed and 621 failed; in the November 1956 examination, 667 (50.6 per cent) candidates passed and 651 failed. The First Certificate of Merit, the Institute Prize and the Plender Prize for the Auditing paper were awarded to Mr Laurence Baker, of London. The Second Certificate of Merit, the Stephens Prize and the Plender Prize for the Taxation and Cost Accounting paper were awarded to Mr Brian Leslie Worth, of London; the Second Certificate of Merit was also awarded to Mr Kenneth William Jackson, of Liverpool.

In the Preliminary examination, 127 candidates sat, of whom 28 (22.1 per cent) were successful and 99 failed; in the November 1956 examination, 27 (25.5 per cent) passed and 79 failed.

A full list of successful candidates, together with a summary of results, appears elsewhere in this issue.

Transport Commission's Purchasing Policy

INQUIRY TO BE CONDUCTED BY SIR HAROLD HOWITT

Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., F.C.A., a Past President of The Institute of Chartered Accountants in England and Wales, and a member of the Council of the Institute, has been asked by the Minister of Transport and Civil Aviation, Mr Harold Watkinson, to examine the purchasing policy of the British Transport Commission and the allegations made recently about specific contracts.

The Minister explained in the House of Commons that because of the importance of the issue to the railway modernization plan, which the Government was underwriting, he felt it was essential to make sure that the facts were established 'expertly and impartially'. He stated that this was also the wish of the chairman of the Transport Commission and he had accordingly asked Sir Harold, 'who as the House knows, has a wide experience of financial and public affairs', to examine the matter and let him have his views upon it as soon

as possible. The Minister stressed that Sir Harold had complete freedom as to how to conduct the investigation and said that the Commission had particularly asked that it should be as widespread and detailed as possible.

Accountants and the Census

It would appear from the detailed information of the dispositions among trades and professions of people employed in England and Wales, contained in the full industry tables of the 1951 Census now available,¹ that the term 'accountancy' has a much wider application than is popularly supposed. The total number of males and females 'occupied for payment or profit' in the profession is given as 63,569, broadly divided as follows:

	Males	Females
Employers	7,197	66
Managers	1,229	28
Operatives	32,656	17,733
Working on own account	4,512	148
	45,594	17,975

The female operatives include 9,328 secretaries and typists, 543 charwomen and office cleaners and 235 telephone operators. The number of 'qualified accountants' in the grand total is 23,115 comprising 22,718 males and 397 females.

These figures appear reasonable when it is remembered that they relate mainly to practising accountants and their office staffs and that articulated clerks are grouped under 'operatives'. In the detailed tables, however, some delightful and unexpected statistics are disclosed. It may come as a surprise to many members of the profession to learn that, among others allocated to accountancy, are no fewer than fifty-two gardeners and thirty drivers of road transport vehicles, three watchmen engaged in Civil Defence, a plumber, a bricklayer, a male trained nurse and a stationary engine driver. Finally, in the last classification, for 'all other and undefined occupations', along with 'rag, bone, bottle, etc., sorters' and 'officials of foreign Governments', are three 'other workers' (two male and one female) obscurely dedicated to accountancy.

Who are those shadowy figures in the hitherto unsuspected hinterlands of the profession? Were the two accountants who described themselves as 'painters and decorators' temporarily unbalanced by a domestic spring-cleaning crisis, the Census month being April? Is an accountant who drives a stationary engine likely to go far? Perhaps, owing primary allegiance to the profession, some of these persons will come forward and explain how they combine accounting with - to take some other recorded occupations - midwifery, gamekeeping and navvying.

¹ H.M.S.O., £7 7s net.

Of the 63,569 people thus heterogeneously assembled under the 'accountancy' umbrella, 23,380 were located in Greater London. The next greatest conurbation was south-east Lancashire, which includes Manchester, with 4,500. Arranged in ages, at opposite ends of the long span, were 860 persons of 15 and 1,249 of 70 and over. The most populated age groups in between were 20-24 (12,532), 25-34 (13,108) and 35-44 (10,416).

As well as recording those engaged in the practising side of the profession, the tables list more than 8,500 qualified accountants employed in industry and commerce. Of these, 1,236 were grouped under the broad classification of 'engineering, shipbuilding and electrical goods', 905 in the distributive trades and 599 in the chemical industry. As the first two are omnibus headings, it is a fair assumption that the last is the greatest aggregation of accountants in any single industry.

American Pension Scheme Audits

Identical Bills at present being considered by the American Senate and House of Representatives would, if adopted, make professional, independent audits of employee benefit and welfare funds in that country compulsory. In messages to the sponsors of the Bill, Mr Marquis G. Eaton, the President of the American Institute of Certified Public Accountants, welcomes the proposed legislation as being 'clearly in the broad public interest'. He goes on to state that about half a million staff pension schemes exist in the United States and that with them are bound up the plans and provisions for old age of seventy-five million citizens - one-half of the entire population. Such schemes, in the American Institute's opinion, not only offer security and peace of mind to the participants but, by their very existence, encourage economic expansion and progress by allowing people to enjoy the highest possible living standards during their active lives without undue concern for their old age.

The President adds that it is very probable that the great majority of existing schemes are being administered 'responsibly and honestly' but that 'no one really knows how well they are being administered'. He suggests that the legislation under consideration pursues a middle course 'between voluntary self-discipline and regulatory controls' and points out that many non-profit-making businesses and institutions nowadays submit, without legal obligation to do so, to an independent audit as an accepted practice of sound management.

Elizabethan Book-keeping Work Discovered

An interesting find has recently been made in Scotland; it is a copy of an early English work on book-keeping by John Weddington, printed at Antwerp in 1567. No surviving copy of the book was known of until this discovery, knowledge of its existence being apparently based on the title which was included in the second edition of Ames's *Typo-*

graphical Antiquities published in the late seventeenth century. The book, which came to light in the library of Blairs College, Aberdeen, is reported to be complete, and is thus the second oldest complete book on book-keeping in the English language to have survived to modern times, the oldest being James Peele's book of 1553 (apart from the fragment of the 1547 translation of Ympyn now in Moscow).

It is probable that a copy was seen in the middle seventeenth century, for although the title does not appear in the first edition of *Ames* in 1749, there is a manuscript note of the title in the handwriting of Joseph Ames as follows:

'A Briefe Instruction and manner howe to kepe Merchantes Bokes of Accomptes. After the order of Debitor and Creditor, as well for proper accomptes, partable, Factory and other etc. Very needfull to be knownen, and used of all men, in the feattes of merchandize. Now of late newly set forth, and practisyd by Johan Weddington Cyttizen and Mercer of London MDLXVII. The treweth seketh no corners. Printydd in Andwerpe, by Peter Van Keerberghen dwelling by owre Lady Church at the signe of the golden Sonne. Cum gratia and Privilegio. Folio.'

John Weddington was not only a citizen of London, but was also a merchant with trading connections in Antwerp, and this probably accounts for his book being printed there. Detailed examination of the work has not yet been possible, as it is now in Edinburgh for certain necessary repairs, but a photographic copy has been promised for the library of the Institute at Moorgate Place, where it will be available for inspection.

Settlements and Tax: Meaning of 'Revoke'

The fineness of the knife edge, on which the question of whether or not a settlement is caught by the income tax avoidance provisions is balanced, was emphasized the other day when the House of Lords gave judgment in *C.I.R. v. Kenmare* and in *C.I.R. v. Saunders* (*The Times*, July 26th, 1957). In each case the House dismissed the appeal, the first by the taxpayer, the second by the Inland Revenue, both cases turning on the meaning of Section 38 (2) of the Finance Act, 1938 (now Section 404 (2) of the Income Tax Act, 1952) which is directed against settlements which the section deems to be 'revocable'.

If any person has the power, whether immediately or in the future, to revoke or otherwise determine a settlement 'or any provision thereof' so that the settlor or his wife will or may become beneficially entitled to part of the settled property or its income, the income of the settlement is to be treated as the income of the settlor. In the *Kenmare* case the trustees had power to withdraw sums from the settlement and hand them to the settlor. There was a limit of £60,000 for any period of three years and the settled fund was worth £700,000. The House affirmed the Court of Appeal's decision that the settlement was caught by Section 38 (2), since there was a distinct possibility that cumulative withdrawals

would exhaust the settled funds. It was also held that any settlement, wherever made and whatever foreign element might be imported from the residence of the trustees or the settlor, was subject to the section if there was United Kingdom income.

In the *Saunders* case a sum of £100 had been settled and then increased to £25,100. By clause 4 the trustees might at discretion pay any part of the

settled fund to a class of persons including the settlor's wife, but subject to a proviso that not less than £100 must remain in the settlement. The House held, by a majority of three to two, that the settlement was not caught by Section 38 (2); the word 'revoke' did not include partial revocation and the word 'determine' did not include partial determination.

Finance and Commerce

Heaviness in equities and some tentative improvement in the gilt-edged market is now the main pattern of the rather narrow stock exchange business. The market is still waiting for action to follow the recent statements of the Chancellor and the Prime Minister on anti-inflation policy.

Kangol

A change in the end-1956 balance sheet of Kangol Limited, which we reprint this week, brings more closely into view the company's net current asset position. The account, as will be seen, is in single column form. At end-1955, the total of current assets was added to the total of fixed assets before deduction of current and future liabilities. This time, current and future liabilities have been deducted from current assets and the net figure taken out for addition to fixed assets. This, of course, is as it should be.

There is room, however, for an explanation of the company's position with the Inland Revenue, such as many companies now provide in notes on the accounts. The position, as stated by the chairman, Mr J. Spreiregen, is contained in the following paragraph from his statement with the accounts.

"The profit for the year, after taxation, amounts to £10,308 as against £17,820 and, in the circumstances, your Board have decided not to recommend the payment of a final dividend. An interim dividend of 6½ per cent less income tax was paid in November 1956. You will notice from the consolidated balance sheet that we had an overdraft at December 31st, 1956, of £81,316 and we must conserve the finances of the company. This overdraft has arisen from the reduction in our taxation liability, which, a year ago, amounted to £174,289 and at December 31st, 1956, was £97,118.

Dividend Record

The company's 4s shares were marketed on the Stock Exchange in July 1952 which, as the Financial Record reproduced from the report shows, was the year of peak profits. The business, as then stated, was in the manufacture of berets - which during the war were the fashionable headgear - and with sales for the half-year to June 1952 up on the corresponding half of 1951, the full-year profits were expected to be higher and the prospective dividend was on the

basis of 20 per cent per annum. Stock Exchange dealings started at just over 6s per share.

Dividends were actually on a 30 per cent per annum basis to 1954. For 1955, the payment was cut to a barely-earned 20 per cent. The market price of the 4s shares which in 1954 was up to 18s 3d is now in the region of 5s.

Mr Spreiregen refers in his statement to increasing costs, to a drastic reduction in Government orders with the cut in the defence programme, and to losses in the fur felt hat section which has now been closed down.

In the current year, exports have been increased by over 10 per cent but profit margins have been cut to meet continental competition. Current trading results in the early months of 1957 showed improvement, but Mr Spreiregen is unable to forecast with any certainty the outcome of the full year. If there is an improvement in the first nine months, however, the Board will consider the payment of an interim dividend, subject to availability of cash resources.

Half-year Figures

A short mention to The British Plaster Board (Holdings) Ltd, which is to begin publishing half-year figures. Sir Graham Hayman, the chairman, acknowledging a 'growing public demand for the publication by public companies of interim results in addition to the usual annual figures', says that the directors have decided to publish the profits for six months to September 30th. A statement can be expected in November of each year in future.

Sir Graham points out that care will be needed to avoid drawing wrong conclusions from these figures as past results have shown wide variations between the two six-monthly periods of any one year and between corresponding periods of one year compared with another.

As in the case of annual accounts, however, figures should be accompanied by an explanatory statement to put them as far as possible into the right perspective.

Meanwhile it is disturbing to see a growing number of interim reports devoid of figures. We noticed in particular the report from the board of Hadfields Ltd, the steel-makers and engineers. The statement ends by asking all those who read it to help the company achieve an essential improvement in output

and efficiency. May we help by suggesting that efficiency should go as far as figures in the interim report.

Money Market

Treasury bill applications totalled £396,180,000 on July 26th and at a maintained bid of £99 or 9d the market syndicate's allotment of the £230 million of bills offered was 32 per cent. The average rate was £3 16s 10.82d per cent. This week's offer is £230 million.

Year ended 31st December	FINANCIAL RECORD						Profit before taxation £
1942	..	..	..	..	..	..	12,544
1943	..	..	..	..	..	..	6,583
1944	..	..	..	..	..	..	9,191
1945	..	..	..	..	..	..	1,721
1946	..	..	..	..	..	..	12,609
1947	..	..	..	..	..	..	22,332
1948	..	..	..	..	..	..	25,605
1949	..	..	..	..	..	..	22,587
1950	..	..	..	..	..	..	64,061
1951	..	..	..	..	..	..	147,825
1952	..	..	..	..	..	..	221,585
1953	..	..	..	..	..	..	132,531
1954	..	..	..	..	..	..	133,679
1955	..	..	..	..	..	..	39,482
1956	..	..	..	..	..	..	20,116

KANGOL LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet at 31st December, 1956.

Net. £	1955 Accumulated Depreciation. £	Cost. £		Cost. £	Accumulated Depreciation. £	Net. £
77,903	6,698	84,601	I. FIXED ASSETS			
1,816	1,310	3,126	1. Freehold Property	89,968	6,898	83,070
98,097	154,693	252,790	2. Leasehold Property	3,126	1,831	1,295
21,207	9,940	31,147	3. Plant and Machinery	255,860	169,421	86,439
6,439	6,152	12,591	4. Furniture and Fittings	34,730	12,439	22,291
			5. Motor Vehicles	11,948	6,963	4,985
205,462	£178,793	£384,255		£359,632	£197,552	198,080
747			6. Patents and Trade Marks, at cost, less amounts written off ..			—
206,209						198,080
			II. CURRENT ASSETS			
		97,717	1. Stock and Work-in-progress, at cost or lower market value:			
		86,682	(a) Raw Materials and Stores	80,662		
		80,478	(b) Work-in-Progress	99,492		
		1,000	(c) Finished Goods	95,849		
			(d) Loose Tools	250		
	265,877				276,253	
	120,648		2. Debtors and Payments in Advance, less provision for doubtful debts		88,532	
	32,094		3. Cash and Bank Balances		28,222	
418,619					393,007	
624,828						
			Deduct:			
		118,516	III. CURRENT LIABILITIES			
		174,289	1. Creditors and accrued expenses	85,562		
		4,313	2. Bank Overdraft	81,316		
297,118			3. Taxation currently payable	97,118		
			4. Proposed dividend	—		
				263,996		
		16,149	IV. FUTURE LIABILITIES			
	23,649	7,500	1. Income Tax due 1st January, 1958, estimated	10,040		
320,767			2. Equalisation of Tax due to initial allowances	7,500		
£304,061					281,536	111,471
			Net Assets of the Group			£309,551
		200,000	V. SHARE CAPITAL			
			1. Authorised:			
			1,000,000 Shares of 4s. each	200,000		
150,000			2. Issued:			
			750,000 Shares of 4s. each, fully paid			150,000
			VI. CAPITAL RESERVES			
	63,184		1. Excess of the net assets of the subsidiary companies at date of		63,184	
	5,202		acquisition over the cost of the shares in the companies		5,202	
	—		2. Profit on sale of property		573	
68,386			3. Excess Profits Tax—Post War Refund		—	
85,675					68,959	
			VII. UNAPPROPRIATED PROFITS OF THE GROUP at 31st December, 1956			90,592
			NOTE:—			
			At 31st December, 1956, there were no Capital Commitments			
			(1955, £2,500)			
£304,061						£309,551

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Training for the Profession

SIR, — Mr A. P. Robson's letter to you upon this subject (July 27th issue) contains so many of the prevalent illusions upon the matter — which I had hoped my recent article would question — as hardly to merit further comment from me. I should, however, not wish to appear tacitly to accept his comments.

Experience really does not support the 'self-evidence' of the 'facts' which Mr Robson mistakes for argument and, when it comes to freedom for the student 'to organize his own studies', he is surely even more free to do so under a correspondence course!

Apart, however, from these more or less obvious inconsequences, I would wish to emphasize, firstly, the really great value of a wide general education, and, secondly, the lesser almost negative value of the narrow technical education.

If, as I understand him, Mr Robson is writing in favour of 'technical' classroom education, I fear he is gravely mistaken so far as accountancy is concerned.

My friend, Mr Clifford Witton, in his letter also published on July 27th, certainly strikes a note of useful criticism in the apparent injustice of my proposed one-way traffic in transfer of articles. I fear, however, that it is the more elementary experience which is best gained in the smaller office and the experience in the larger office really must come later to be of full value to the student. Such short spells as Mr Witton suggests would not be adequate to enable the student to find his level in and 'get the feel' of either a large or a small office. I could wish it were otherwise, but it would be disingenuous to appear to agree.

Yours faithfully,

London, EC2.

H. O. H. COULSON.

Inter-company Shareholdings

SIR, — I have to solve a problem of interlocked shareholdings in three companies, A., B. and C.

A.'s members are B. and C. and others;

B.'s members are A. and C. and others;

C.'s members are A. and B. and others.

By a further complication A. and B. share, unequally, a fund D., consisting of A. and B. shares. As a preliminary to getting rid of these inter-company holdings, it is required to work out the interest of the outside members of each company in the income, other than inter-company income, of their own and the other two companies. It can be done in the manner of surtax apportionment by following through a dividend to point of exhaustion, but will one of your

mathematically-minded readers be good enough to supply me with a formula.

Yours faithfully,

SKEIN.

A Book-keeping Calypso

SIR, — The accompanying calypso was composed by one of my book-keeping students at the conclusion of the recent evening school session and I thought perhaps it might afford some light relief for your readers. The reference to the shop on the Vauxhall Bridge Road is because the point is always made in the class that the principles are the same for such a shop and for a large industrial concern.

Yours faithfully,

London, NW11.

W. H. CHARLTON.

That day in September we commenced
To tackle the problem of shillings and pence.
On Mondays and Wednesdays we assemble there,
Mr Charlton, our tutor, he takes the chair.

Chorus: And it all takes place or so we're told
In a Fish and Chip Shop on the Vauxhall
Bridge Road.

The blackboards are covered from top to toe,
With accounts, calculations and other woe.
On Mondays we receive our homework solution,
And another pile for our consideration.

With debit and credit well to the fore,
We proceed to venture another step more.
From the task of a bank reconciliation
To sinking funds and depreciation.

Should partners argue and never agree,
Refer them to the Act of 1890.
Partners share of profits in all sublime,
Must always appear beneath the line.

Limited companies are quite unique,
And annually file a balance sheet.
Sometimes the directors have such a nerve,
By placing all the profits to a general reserve.

So now our progress is very steady,
And we trust most satisfactory.
Contrary to what the book said
We are now permitted to make entries in red!

Insurance Claim and Income Tax

SIR, — The following extract from a letter from an insurance company was received by a client who, having suffered an accident to his business car, sought to recover from the insurance company of the offending motorist a refund of £52, being the cost of car hire incurred whilst his car was being repaired.

'We would like to point out, however, that presumably this account in the sum of £52 will, at the

end of your financial year, fall to be dealt with as a business expense, which will in consequence reduce the amount of income tax payable by you to a certain degree, and as our payments for damages are not subject to tax you would thus be making a profit eventually. Strictly speaking, therefore, we should first of all calculate what your net loss eventually will be, but to avoid lengthy and protracted correspondence we would be prepared at this stage to make you a total offer of £40 in full and final settlement of your claim against our insured. We make this offer in a sincere effort to bring this matter to an end without prolonging it unduly, and perhaps you will let us have your advice as to whether it is accepted after you have given the matter consideration.'

If normal practice was followed, the £52 would be charged to car expenses account and the recovery of this sum credited thereto upon receipt from the insurance company.

The letter suggests that this method is incorrect, but it is felt that considerable difficulty would be encountered should it be suggested to the Inland Revenue that such a receipt was not taxable.

It would be interesting to hear if any other members of the profession have ever had similar cases brought to their notice and, if so, how they have dealt with the matter.

Yours faithfully,
REPAID.

Taxation Cases

A full report of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

National Book League v. C.I.R.

In the Court of Appeal – May 30th, 1957

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice MORRIS and Lord Justice PEARCE)

Income tax – Charity – Deeds of covenant – No increase in subscription during covenant period – Restaurant and other facilities available – Whether covenanted sums were annual payments – Income Tax Act, 1952, Section 447.

The objects of the appellant were to promote the reading and writing of good English, the encouragement of literature, the habit of reading and the wider distribution of books. The appellant held the lease of a house in the West End, and there provided an exhibition gallery, a library, three sitting-rooms, a cocktail bar, and a restaurant which was managed by a firm of caterers. Lectures and similar functions were arranged, and there was a journal. There were about 10,000 individual members, and about 2,800 of them entered into deeds of covenant, under which they agreed to remain members, and to make annual subscriptions at the then existing rate for at least seven years. By the special resolution under which these deeds of covenant were made, the rates of subscription were increased except for those members who entered into the deeds of covenant.

The appellant was admittedly a charity, and it applied for exemption, under Section 447 (1) (b) of the Income Tax Act, 1952, in respect of the sums received under the deeds of covenant. The Special Commissioners allowed the claim. They considered that such advantages as were afforded to the members by the available facilities were not advantages of a substantial character.

Held (affirming the judgment of Mr Justice Vaisey), that substantial financial advantages were given to the covenantors which prevented the covenanted sums from being regarded as pure income profit within Case III of Schedule D.

C.I.R. v. S. Berendsen Ltd

In the Court of Appeal – May 30th, 1957

(Before THE MASTER OF THE ROLLS (Lord EVERSHED), Lord Justice MORRIS and Lord Justice PEARCE)

Profits tax – Directors' remuneration – One director controlling shares held by another company – Whether directors had a controlling interest – Finance Act, 1937, Schedule IV, paragraph 11.

The respondent company's issued capital consisted of 1,000 shares of £5 each, each share carrying one vote at general meetings. The directors were registered as the holders of 401 shares, and a Danish company held another 599 shares. One of the respondent company's directors held 395 of the 600 issued shares in the Danish company, and thus possessed a majority of the votes in that company.

In computing the company's profits for profits tax purposes the Inland Revenue limited the deduction for directors' remuneration pursuant to paragraph 11 of Schedule IV to the Finance Act, 1937. It was contended for the respondent company that, as the votes attaching to the shares in the respondent company registered in the names of its directors were less than 50 per cent of the total votes available at general meetings of that company, the deduction for directors' remuneration was not limited by paragraph 11. The Special Commissioners decided in favour of the Inland Revenue.

Held (reversing the judgment of Mr Justice Wynn-Parry), that the register of members is the primary factor in ascertaining whether the directors have a controlling interest in a company subject to its being permissible where the registered shareholder is a body corporate, to seek the individuals who themselves control that body corporate; consequently, the fact that one of the directors could decide how the voting rights of the shares held by the Danish company could be exercised resulted in the respondent company being director-controlled.

For Students

ACCOUNTANCY

Trade Discount

Trade discount is the reduction in price from the quoted price of a commodity, service or contract which is given to the purchaser by reason of his position in the particular trade.

Many manufacturers of branded goods prefer to base their invoices for sales upon the retail selling price, deducting therefrom x per cent when invoicing a wholesaler. The wholesaler will invoice the retailer at the retail selling price, less y per cent—such figure being of course smaller than x .

Trade discount should not be shown in the books of account of either the purchaser or the vendor: if it is, it should be merely by way of note in the appropriate day-book, and the invoice price which is posted to the bought or sales ledger should be the net amount after deducting trade discount.

Although the distinction between trade discount and cash discount may seem obvious, in practice this is not always the case. In some trades, the amount of trade discount may be as small as $2\frac{1}{2}$ per cent (e.g. sub-contractors in the building industry), and where so shown on statements etc., it is not infrequently recorded by the book-keeper as cash discount, in a similar manner to the $2\frac{1}{2}$ per cent discount afforded to other customers.

Sometimes, the customary cash discount of $2\frac{1}{2}$ per cent for monthly settlement of account is allowed to a customer even well after the normal period of two weeks or so has elapsed: in some cases, even after a month or two has elapsed. In such cases, the vendor usually considers that it is preferable to allow the discount claimed by the purchaser rather than risk offending him. Usually the discount so allowed is not of a material amount, but where it does amount to such over the course of a trading year, it should be treated as being trade discount, and the debit therefore placed on sales account and not on discount account.

Strictly, therefore, the distinction between trade discount and cash discount is one which can be made only by an inspection of the particular facts obtaining in a business.

TAXATION

The Herd Basis

Farmers and others who keep animals in herds or flocks mainly for their produce or for breeding have a valuable option as to the manner in which these animals are valued each year for the purposes of taxation.

The normal basis is that of cost or market value, whichever is the lower. This method follows the general principle of stock valuation as applied to other traders, with the important proviso that where cost cannot conveniently be determined, it may be taken as being 85 per cent of the current market value of animals bred on the farm: this figure is reduced to 75 per cent in the case of cattle, pigs and sheep.

This optional basis is that known as the herd basis, under which the initial cost of the herd and of additions thereto is regarded as being a capital expense. The value of the herd will therefore not be taken into

account in arriving at the profits and losses of trading. If an animal is added to the herd which was previously regarded as trading stock, the cost of breeding and rearing it, or its purchase price and subsequent cost, will be regarded as a trading receipt. Proceeds of sale of animals comprised in the herd, and cost of replacement animals to the herd, will be regarded as trading receipts and expenses respectively, but where a replacement animal is of better quality the cost of replacement will be limited to the cost of an animal comparable to that being replaced.

Where a complete herd is sold, the sales proceeds are ignored in computing the profits of the trade, but if the taxpayer acquires a further herd within five years of the sale, the rules as to replacements apply and a taxable profit may arise.

A notice of election to the herd basis must normally be made within twelve months of the taxpayer becoming liable to assessment under Schedule D on the trade in question, and the election is irrevocable.

A measure of relief has been given by Section 23, Finance Act, 1953, however, which now permits farmers etc., who have had a herd slaughtered following an outbreak of disease (e.g. foot-and-mouth disease) to adopt the herd basis in and from the year in which compensation is receivable. This procedure therefore enables the taxpayer to replace his herd with the compensation received without incurring any liability to tax on the transaction, whereas normal procedure under the trading-stock method would necessitate regarding the compensation as being sale proceeds. It should be borne in mind, however, that when advantage is taken of this relief in the special circumstances mentioned, the trader is still left on the herd basis for future trading, and he can only divorce himself from this basis in future years by having a period of five years without any such trading, or by floating a limited company to conduct future trading. In the latter case, the limited company is not bound by the election made by the taxpayer, being a separate person in law.

GENERAL COMMERCIAL KNOWLEDGE

Bonus Issues

Recent months have seen a large number of bonus issues take place in public companies, and a few words on this subject may not be inappropriate.

To the accountant, a bonus issue is often merely a book-keeping entry. The trade unionist may view a bonus issue as providing further evidence that a wage claim is opportune. The investor frequently regards a bonus issue as being a sign of prosperity and financial stability in a company, and the speculator will often rejoice that his predictions as to a bonus issue being made have proved correct. Between these different viewpoints, where stands the truth about bonus issues? Are they really anything more than a book-keeping entry?

To be sure, no money changes hands, and the resources of the company are untouched (except for meeting the expenses of the bonus issue): but stock markets are extremely sensitive machines, and just as a cough by a president may send market prices down,

so may a book-keeping entry cause a company's shares to gain in value.

No company will go to the trouble and expense of making a bonus issue of shares unless the directors are confident that the reserves to be capitalized will be indefinitely required in that company. This is emphasized by the fact that the sanction of the Capital Issues Committee must be obtained for all bonus issues of more than £10,000 nominal value.

Sometimes, the reserves from which the bonus issue is to be made are already capital reserves – e.g. capital redemption reserve fund – but often they are revenue reserves which are available for future dividends. The fact that the directors are of the opinion that these funds are permanently required in the company is a sign of confidence in the future, for it will require liquidation or a High Court Order to reduce the capital at a later date.

The expression of confidence, however, is not the only factor which may affect the market value. A large number of companies which have made bonus issues in recent years – and particularly those where the bonus issue has been only of the order of, say, one for every five held – have maintained their existing rate of

dividend upon the increased share capital. Contrary to the results that the shareholders might expect from a mere book-keeping entry, therefore, their total dividends have increased in the same proportion as have their shares. Naturally, some companies which have made a one-for-one bonus have promptly halved their nominal rate of dividend, but the glorious uncertainty which exists at the time of the bonus issue regarding future dividend policy is a fertile ground for speculators.

A bonus issue is a sign of confidence, and apart from the appropriate reduction of market values which one would expect from a watering-down of the capital, it is almost unknown for such a distribution to depress the market value of the shares. How much it may actually increase them is a matter depending upon many factors, not the least of which is the political climate when the announcement is made.

In passing, it may be noted that following the widespread misunderstandings which have arisen in the past by the use of the term 'bonus' issue, many of the financial newspapers now refer to these issues as being 'scrip' issues, thereby emphasizing that no money is in fact changing hands.

CRICKET

THE INSTITUTE v. THE LAW SOCIETY

This year's match between the Institute and the Law Society took place at the Richmond Club ground on July 11th, and ended in a draw when rain stopped play an hour before time.

The Law Society won the toss and put the Institute in to bat, perhaps expecting some help from the wicket which was damp from overnight rain.

T. B. Stafford and B. D. Barton opened for the Institute and batted well to put on 71 in the first hour. Barton was then caught by R. S. Levy off the bowling of W. O. Nicholls, having scored 44. A. Pickard came in to join Stafford and these two added 64 and the score was 135 before Pickard was caught by Levy off Clarke for 33. P. C. Kay was caught and bowled by Nicholls before he had scored, and one run later Stafford was caught at the wicket for 50 off Clarke. After this slight collapse, D. A. W. Bradley hit out freely and made 33 in half an hour, mostly in fours. J. Law scored 10, I. F. S. Ferris 12 and J. McNair was not out 28, when the Institute declared at 228 for 8 just after 4 o'clock, after three hours' batting.

This declaration allowed the Law Society two and three-quarter hours' batting in which to pass the Institute's total – not an impossible task. T. M. Sutton-Mattocks and G. D. Oakley played themselves in carefully against steady bowling from Bradley, Gate and Pickard, and after half an hour's play in a slight drizzle which made matters difficult for the bowlers, they were well behind the clock. Slight rain persisted, conditions deteriorated and the Institute bowlers had difficulty in finding a length on a wicket that had lost its pace. Taking advantage of this, the Law Society batsmen played on to compile a score of 104 runs as a result of aggressive batting. The game was then nicely poised provided the weather cleared, but rain began to fall very heavily and to the disappoint-

ment of both teams the game had to be abandoned.

This concluded the twenty-sixth annual match between the two teams which has always been keenly fought and much enjoyed by the participants. The Institute eleven now has to wait another year in its attempt to regain the match trophy which has been in the hands of the Law Society far too long.

The scores were:

THE CHARTERED ACCOUNTANTS

T. B. Stafford, c. Smithers, b. Clarke	..	..	50
B. D. Barton, c. Levy, b. Nicholls	..	..	44
A. Pickard, c. Levy, b. Clarke	..	..	33
P. C. Kay, c. and b. Nicholls	..	..	0
D. A. W. Bradley, c. Sutton-Mattocks, b. Nicholls	..	..	33
J. Law, c. Outhwaite, b. Nicholls	..	..	10
J. McNair, not out	..	..	28
I. F. S. Ferris, c. Clarke, b. Nicholls	..	..	12
G. W. Gate, c. Smithers, b. Dean	..	..	0
Extras	..	..	18
Total for 8 wickets	..	..	228

B. J. A. Lowe and L. W. Robson (Captain) did not bat.

Bowling: R. L. Clarke 18-3-73-2; J. G. Dean 8-1-31-1; W. O. Nicholls 24-5-68-5; L. Phillips 8-1-38-0.

THE LAW SOCIETY

T. M. Sutton-Mattocks, not out	..	..	44
G. F. Oakley, not out	..	..	46
Extras	..	..	14
Total for no wicket	..	..	104

A. R. de Lattre, R. S. Levy, S. Mundy, R. L. Clarke, J. G. Dean, W. O. Nicholls, L. Phillips, J. G. Smithers and T. L. Outhwaite did not bat.

Bowling: D. A. W. Bradley 7-1-24-0; G. W. Gate 9-3-18-0; A. Pickard 7-0-23-0; I. F. S. Ferris 3-0-23-0; L. W. Robson 0-3-0-2-0.

Notes and Notices

PERSONAL

MESSRS EVANS SMITH, BOOTHROYD & Co, Chartered Accountants, of 99 Fenchurch Street, London, EC2, and at Dover and Worthing, announce that as from June 1st, 1957, they have taken into partnership Mr J. V. CRUMP, A.C.A., and Mr C. C. MARSH, A.C.A., the latter having served his articles with the firm and been with them since 1930. The name of the firm will remain unchanged.

MESSRS FRYER, SUTTON, MORRIS & Co, Chartered Accountants, announce that they have transferred their offices from 26/28 Cross Street, Reading, Berkshire, to 175 Friar Street, Reading. Telephone: Reading 55761/2.

MR FRANK S. HALL, A.C.A., A.T.I.I., of 119 Sandygate Road, Sheffield, 10, announces that as from August 1st, 1957, he will continue his practice under the style of HALL & Co, Chartered Accountants, at 26 Wicker, Sheffield, 3. Telephone: Sheffield 26180.

MESSRS BICKER, SON & DOWDEN, Incorporated Accountants, of Hinton Buildings, Hinton Road, Bournemouth, announce that Mr HEDLEY J. BICKER, J.P., F.S.A.A., has retired from the partnership; he is, however, remaining as consultant. The practice will be carried on by the remaining partners, Mr STANLEY G. DOWDEN, F.S.A.A., and Mr NORMAN E. BICKER, A.C.A., A.S.A.A., and they have admitted into partnership Mr COLIN H. MEAD, A.C.A., A.S.A.A., who has been a member of the staff for several years. The style of the firm will remain unchanged.

PROFESSIONAL NOTES

Mr S. A. A. Knott, A.C.A., F.I.A.C., has been appointed to the board of Charles Roberts & Co Ltd as from July 17th.

Mr L. P. Harrold, A.C.A., F.C.W.A., has been appointed a special director of Vickers-Armstrongs (Engineers) Ltd as from July 18th.

Mr S. V. P. Cornwell, M.C., M.A., F.C.A., has been elected President of the Bristol Chamber of Commerce.

COMPANY INVESTIGATION

MR W. S. CARRINGTON APPOINTED AN INSPECTOR
Mr W. S. Carrington, F.C.A., and Mr N. J. Skelhorn, Q.C., have been appointed as inspectors to investigate the affairs of Wright Hamer Textiles Ltd, of Keighley, Yorks. The appointments have been made by the Board of Trade on the application by members of the company pursuant to Section 164 (1) of the Companies Act, 1948.

NATIONAL UNION OF MANUFACTURERS

CHARTERED ACCOUNTANT APPOINTED DIRECTOR
Lieut.-Col. V. I. Robins, O.B.E., A.C.A., has been appointed director of the National Union of Manufacturers in succession to Mr C. F. V. Williams, C.I.E., who retired recently. Lieut.-Col. Robins has been secretary of the National Union since 1926, and deputy director and secretary since 1950.

IN PARLIAMENT

INSTITUTE OF CHARTERED ACCOUNTANTS: CHARTER

Mr E. FLETCHER asked the Paymaster-General, as representing the Lord President of the Council, whether he is aware that the new Charter sought by the Institute of Chartered Accountants to give effect to the proposed merger with the Society of Incorporated Accountants would restrict entry to the profession to those who take articles, and would deprive a large number of potential candidates from entering the profession, as hitherto, under the by-laws of the Society; that this tendency is inequitable and contrary to the public interest; and what steps he is taking in the matter.

Mr MAUDLING: The Institute of Chartered Accountants has submitted for approval amendments in its Charter which give effect to the proposed scheme integrating the Society of Incorporated Accountants with the Institute.

The Privy Council is still considering these proposals which will, if approved, result in the Society ceasing to exist. Future entry to membership of the Institute will be, as heretofore, confined to candidates who have served under articles.

I understand that the Society's approval of the scheme is still subject to the outcome of a poll which is now being taken. I am informed that approval will require a 75 per cent majority of those voting, and that voting papers must be delivered to the Society by July 31st.

In these circumstances it would not be appropriate for me to comment further.

Hansard, July 29th, 1957. Written Answers. Col. 129.

CHARTERED ACCOUNTANT CHOSEN AS PARLIAMENTARY CANDIDATE

Mr John Diamond, F.C.A., has been chosen by Gloucester Labour Party as their candidate at the pending by-election. Mr Diamond was formerly the member for the Blackley Division of Manchester from 1945-50 and from 1950-51.

THE BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

The seventy-fourth annual meeting of The Birmingham Chartered Accountant Students' Society was held on July 19th.

The membership of the Society increased by forty-two during the year, making a total of 1,269 at April 30th. In addition to this further rise in membership, the committee reported a successful year in which the activities included a visit by Mr A. S. H. Dicker, M.B.E., F.C.A., then President of the Institute, weekly lectures during the winter session, debates, visits to industrial organizations, and the annual week-end residential course at Ashorne Hill, near Leamington Spa (this year the course is to be held at Merton College, Oxford).

Among other activities were a number of sports fixtures, rugby football, association football, hockey and golf matches being played. There was also a tennis tournament, a treasure hunt—in which over eighty members and friends entered in twenty-seven

cars—two successful dances and the annual dinner. The Saturday morning lecture scheme was continued and the 120 lectures were well attended, particularly those in the concentrated series for Final students on taxation.

The eighth annual report of the Coventry area branch records a further year of progress as does that of the Wolverhampton branch. The Hereford and Stoke-on-Trent groups also arranged a number of meetings.

As a frontispiece to the committee's report there is a photograph of Mr Eric Hemsoll, M.C., who retired last February after many years' devoted service as clerk to the committee.

The officers of the Society for 1957-58 have been elected as follows:

President: Mr S. V. Lancaster, T.D., J.P., F.C.A.

Vice-President: Mr A. S. Maddison, F.C.A.

Hon. Secretary: Mr C. H. C. Edwards, Chartered Accountants' Library, 71 Edmund Street, Birmingham, 3.

Hon. Assist. Secretary: Mr P. E. Couse.

Hon. Treasurer: Mr D. C. Wasdell.

Hon. Librarian: Mr A. B. L. Horsman.

LIVERPOOL CHARTERED ACCOUNTANT STUDENTS' ASSOCIATION

ANNUAL GOLF COMPETITION

The annual golf competition of the Liverpool Chartered Accountant Students' Association was held at the Heswall Golf Club, Cheshire, on July 15th.

The competition, which was played under Stableford scoring, was won by Mr S. Jack with 35 points.

The leading scores were as follows:

S. Jack	..	..	..	35 points
F. C. E. Nicholson	..	..	..	35 "
E. L. Ashton (hon. member)	..	..	..	35 "
J. A. Colvin (hon. member)	..	..	..	33 "
M. R. T. Sills	..	..	..	31 "
I. W. Hollway	..	..	..	30 "
W. S. Wicks (hon. member)	..	..	..	29 "
K. V. Dodman	..	..	..	29 "
T. D. Leece	..	..	..	28 "
R. J. Ellison	..	..	..	28 "
K. A. Paul	..	..	..	28 "
H. Hughes	..	..	..	28 "
I. A. T. Legge	..	..	..	27 "
F. W. Taylor	..	..	..	25 "
A. J. Ravenscroft	..	..	..	24 "

CHARTERED ACCOUNTANTS' HOCKEY CLUB

In their annual match with the Bank of England, played at Roehampton on July 24th, the Chartered Accountants won with a score of five goals to three.

Both clubs fielded strong sides, with M. Doughty, the Old Kingstonians and Olympics representative at Melbourne, playing for the Bank of England at centre-forward, and C. Key, the Bath right-winger and Olympics trialist, playing for the Chartered Accountants.

The Bank took the offensive from the start, and had scored two goals within fifteen minutes of the opening whistle. The Accountants' teamwork improved steadily, however, and with P. D. Clarke, in goal-getting form at centre-forward, they equalized by half-time. In the second half, M. L. Pecker was tested in goal by the Bank forwards on several occasions but played a steady game. D. Wilson and P. Boobyer broke up most of the Bank sorties and helped to keep the ball up with the forwards. From a breakaway, C. Key

scored the third goal to put the Accountants ahead and shortly after, A. P. Stirling, with the assistance of D. R. Fyson, scored the fourth goal.

The Bank of England now harried the Accountants' defences and obtained their third goal, but M. L. Coleman, D. Thompson and D. R. Fyson tackled back successfully and prevented any further score. The game finished as keenly as it had begun with P. D. Clarke obtaining the Accountants' fifth goal with a backflip as the ball was passing out of play at the side of a goal-post.

The Institute was represented by:

M. L. Pecker (*Hampstead*); P. Boobyer (*Wimbledon*); and D. Wilson (*Southgate*); D. R. Fyson (*Cheam*), D. Thompson (*Wimbledon*) and M. L. Coleman (*Worthing*); C. J. Key (*Bath*), A. P. Stirling (*Beckenham*), P. D. Clarke (*Blackheath*) (Captain), G. Robson (*Purley*) and D. Johnson (*Cheam*).

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 6 p.m. on Monday, August 12th, in the vestry of St Mary Woolnoth Church, Lombard Street, EC3. The scripture for reading and thought will be the parable of the murderous tenants. (St Matthew, xxi. 33-41.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 5TH, 1882

Extract from leading article entitled

ACCOUNTANTS: THEIR DUTIES AND RESPONSIBILITIES

It is astonishing what ignorance is displayed by many people, otherwise well informed, as to the sphere and utility of an accountant. "You wind up insolvent estates," says one; "A brass plate, pen and pencil, are all that is required to make an accountant," says another; while a third "fails to see the utility of one" until he is obliged to call him in, and then, to his regret, discovers that had he sooner availed himself of his services he would have been considerably the richer.

As a distinct avocation accountancy does not go back more than a century, and at the present time is practically unknown as a distinct calling in Germany. It is the natural outgrowth of the enormous development of trade and commerce, and has received of late years great impetus from the adoption of joint-stock enterprise. When traders lived over the businesses, locomotion was both slow and expensive, and trade, in all its details, was within the grasp and control of the principal, no necessity existed for professional accountants; but nowadays, where hundreds take the place of tens, and even the various departments of a business are subdivided, the necessity for a control of the books by some qualified person unconnected therewith is daily receiving fresh recognition. Many private firms, who ten years ago would have ridiculed the idea, now have their books periodically audited by an accountant, and look to him for protection and advice. . . .

Persons unacquainted with the varied duties of an accountant look upon his avocation as a monotonous round of adding up columns and striking balances. Far from being of a humdrum nature, it may confidently be said that any practitioner of ten years' standing could from his own experience write a history full of romantic and even dramatic incidents.

LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

Membership of the Committee

The committee received with regret the resignation of Mr P. N. Morshead, B.A., A.C.A., who has been a member since May 1955. He is leaving the committee on account of pressure of business.

Mr R. E. J. Fisher has been elected to the vacancy on the committee.

Integration

The English, Irish and Scottish Institutes have now voted in general meeting and by poll for integration of The Society of Incorporated Accountants with the three Institutes of Chartered Accountants. The Society have also approved the merger in general meeting and poll is now taking place.

If the integration is agreed this will mean great changes in the work of the Students' Society. A sub-committee has been set up to examine the preliminary problems that would arise on integration of the two London Students' Societies.

Survey of Articled Clerks' Conditions

The committee have discussed at several meetings the difficulties which arise in connection with the resolu-

tion passed by the annual general meeting in April concerning a survey of articled clerks' conditions. It is hoped that a definite move will be possible shortly.

Newly-qualified Members

Arrangements have been made to repeat for the benefit of those who passed their Final examination in May, the meeting at which they will be brought into touch with the District Society.

Library

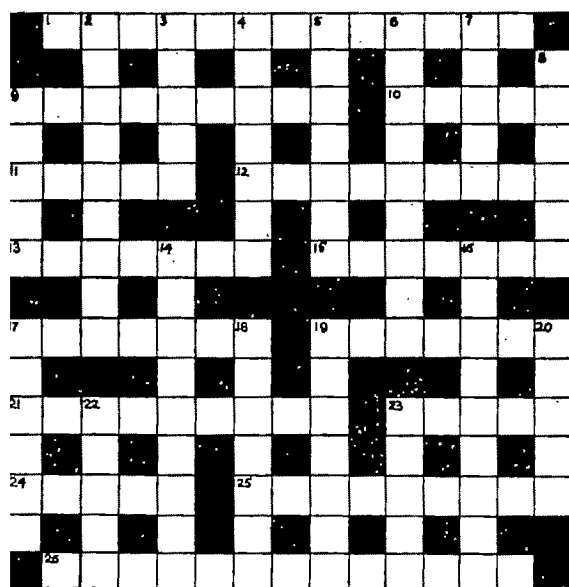
A sub-committee appointed to inquire into the operation of the library and to consider future plans has now reported back to the committee.

Amongst their recommendations which were accepted were that the Students' Society should carry on with their present policy of (a) stocking considerable numbers of the textbooks recommended by the coaches; (b) providing books of wider reading for accountancy students.

Great stress was laid on (b) and efforts are to be made to encourage the use of books other than the standard texts.

ACCOUNTANTS' CROSSWORD

Compiled by Kenneth Trickett, A.S.A.A.



ACROSS

1. He is a corporation sole (two words) (6), (7)).
9. Corresponds with the dice shaken among the money (9).
10. Diminish (a legacy) or intrude (on a freehold) (5).
11. In an earlier passage (5).

12. Epithet for the stage between the second and third readings (9).
13. Change of address - of a director under Section 184, Companies Act, 1948? (7).
15. Remuneration, including gratuity (7).
17. Payment to an author, mostly of gold coin (7).
19. He takes things as security (7).
21. The examination student should thus set out a reserve between letters (9).
23. Record to be repeated immediately below after town in Norfolk (5).
24. It is in the rent-charge (5).
25. He disagrees, and thus upsets the residents (9).
26. *Quid pro quo* (13).

DOWN

2. Regularly using only one document? (9).
3. Riches obtained by cruel means (5).
4. 100050110150 (7).
5. Continues summaries without accents (7).
6. Fix (9).
7. Compel payment, absolutely correct, from legislation (5).
8. Resist (6).
9. It is taken when presiding (5).
14. Without price? No, just the opposite (9).
16. In which section (Income Tax Act, 1952) Schedule A is defined (6-3).
17. Account (6).
18. Produced (7).
19. Printing machine with royal letters (7).
20. Mistake or mistake (5).
22. Proportion of operation not open (5).
23. Chosen to begin making an electronic brain (5).

The solution will be published in next week's issue.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Results of Examinations held in May 1957

FINAL EXAMINATION

Held on May 28th, 29th, 30th and 31st, 1957

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute prize, the W. B. Peat Medal and Prize, the William Quilter Prize (shared with one other), and the Plender Prize for the Advanced Accounting (Part I) paper
Liversidge, Jack (A. F. Sergeant), Leeds.

Second Certificate of Merit, the Walter Knox Scholarship and the Frederick Whinney Prize
Jaeger, John Michael Lytton (E. D. Taylor), Leeds.

Third Certificate of Merit
Hanson, James Donald (S. Sutcliffe), Halifax.

Fourth Certificate of Merit
Ransom, Robert Stephen (W. H. Mason), London.

Fifth Certificate of Merit and the Plender Prizes for the Auditing and the English Law (Part I) papers
Varah, Malcolm Gordon (G. W. Roberts), Bradford.

Sixth Certificate of Merit
Oddy, Frederick Michael (J. W. G. Mitchell), Bradford.

Full List of Names of Successful Candidates

(In alphabetical order)

Abbott, A. D. (H. K. Easton), Birmingham.
Abbott, D. H. (F. J. Eves), Colchester.
Abel, A. R. (C. T. Boakes), London.
Ackford, B. E. (G. W. Pillar), Plymouth.
Adams, A. K. (J. Wilson), Manchester.
Adcroft, P. (E. Rawcliffe), Blackpool.
Aitken, R. W. (P. J. Chaplin), London.
Alflett, M. E. (A. E. H. Benard), London.
Allardice, J. B. (F. L. Davies), Warrington.
Allen, K. H. (R. P. Wilkinson), Manchester.
Amatt, C. H. (F. B. Peach), Burton-on-Trent.
Anderson, C. J. (H. Redmayne), Nottingham.
Anderson, J. (R. W. Lambeth), Cheltenham.
Andrews, N. T. (H. Sadler), Birmingham.
Appleby, D. E. M. (C. N. Smellie), London.
Archer, W. A. (H. D. J. Haines), Hereford.
Armitage, J. M. (J. H. Bell), Manchester.
Arnold, M. J. (G. M. Harrison), Horsham.
Artley, J. G. (E. W. Walford), Stockton-on-Tees.
Aston, R. (J. B. Diggle), Manchester.
Atchison, D. J. (A. H. Marshall), London.
Austin, E. D. (A. J. Lovatt), Peterborough.
Ayoola, E. O. (R. F. Harding), Brighton.

Babiak, H. (D. A. Bussell), London.
Baguley, R. H. (J. N. Haworth), Manchester.
Baker, A. H. C. (F. W. Lythgoe), Liverpool.
Baker, D. I. (H. F. Payne), London.
Baker, G. M. N. (J. R. Paramour), London.
Bale, R. M. (J. V. Hansford), Manchester.
Ball, C. D. (T. Higson), Nottingham.
Ball, F. R. (C. C. Taylor), Liverpool.
Barber, R. (P. J. Gould), Sheffield.
Barlow, G. S. (P. Nuttall), Manchester.
Barnman, J. H. (R. S. Paterson), London.
Barnes, P. M. (A. W. Wheeler), Tamworth.
Barnett, B. (A. B. Snow), Hanley.
Barrell, D. W. A. (O. W. Horne), Portsmouth.
Barrick, A. (R. O. McIlwrick), Manchester.
Barrow, J. R. (T. A. H. Baynes), Birmingham.
Bates, D. J. (R. R. Giles), London.

Batty, E. (J. F. W. Robinson), Workington.
Baxendale, H. (G. R. Turner), Bradford.
Bedingfield, H. C. (E. T. Granger), London.
Beever, J. R. (J. W. Clement), London.
Berkowitz, D. M. (S. L. Prashker), London.
Bewers, J. S. L. (F. C. Rossiter), London.
Binder, A. G. (J. Codling), Beaconsfield.
Blakstad, M. E. (J. L. Smith), Birmingham.
Bloomfield, A. S. (L. Gibson), London.
Blumer, C. R. C. (W. T. Hunter), Maidstone.
Booth, I. G. (J. K. Dick), London.
Bower, B. R. (N. Pilling), Manchester.
Bowyer, J. R. (C. P. Mabbs), London.
Braithwaite, P. (A. G. Thomas), Sheffield.
Brandt, R. (C. I. Bostock), London.
Brandt, G. A. (J. O. Elphick), London. (*Plender Prize for i
General Financial Knowledge, Cost and Management Account-
ing paper*).
Broad, M. F. S. (J. W. Perman), London.
Bronnert, J. (A. Golland), Manchester.
Brook, G. (J. E. Thomas), Bangor.
Brown, J. D. (J. A. Crisp), Newcastle upon Tyne.
Browne, F. J. (A. E. Shaw), Norwich.
Bucks, D. (J. W. Margetts), London.
Bukhari, S. N. A. (F. Goldstein), London.
Burnard, G. H. (J. M. J. Davison), Newcastle upon Tyne.
Burrough, G. F. (M. W. Burrough), Bridport.
Burton, B. F. C. (F. Merchant), Nottingham.
Butters, A. M. (J. S. Braime), Leeds.

Cadoux-Hudson, H. L. (P. H. Champness), London.
Candy, J. P. D. (T. B. Hughes), London.
Candy, R. C. (J. P. Coatsworth), London.
Capewell, J. D. (H. Hudson), Dudley.
Cariss, P. R. (R. T. Salt), Birmingham.
Carr, A. (A. S. Bond), Sheffield.
Carr, I. F. (H. J. H. Greenacre), London.
Carter, A. (A. C. Dixon), Sunderland.
Carter, C. S. (A. F. Clarke), Liverpool.
Carter, W. G. K. (A. J. Loarridge), London.
Chandler, R. S. (J. W. Austin), Biggleswade.

Charlton, P. B. (R. Fawcett), London.
 Charlton, R. T. S. (R. D. Fraser), London.
 Chater, C. T. (G. A. Taylor), Kettering.
 Chattapadhyay, S. K. (D. E. T. Tanfield), Birmingham.
 Chatwani, V. P. (S. P. Quick), London.
 Child, D. (F. Fox), Bradford.
 Childs, P. C. F. (E. A. Savage), Bristol.
 Chissell, J. G. (A. W. Miles), Bournemouth.
 Clark, J. O. (C. L. Davies), Leeds.
 Clarke, C. J. (D. J. Jones), Manchester.
 Clarkson, W. E. (E. S. Walker), Birmingham.
 Cohen, G. (S. Cohen), London.
 Collard, J. W. M. (S. S. Gibbons), London.
 Cooper, A. A. (L. M. Kershaw), London.
 Cooper, B. M. (H. L. Lawson), London.
 Cooper, G. (M. Brookes), Oldbury.
 Cooper, G. C. (G. W. Firkins), Birmingham.
 Cooper, K. (P. G. Walker), Warrington.
 Corbett, P. G. (J. W. Margetta), London.
 Cornish, J. (C. J. K. Boyce), Guildford.
 Cotton, A. D. (B. Collins), Manchester.
 Coulter, C. M. (D. S. Osborne), Birmingham.
 Cowling, D. (C. W. Bellamy), London.
 Croll, M. J. (J. Baves), Manchester.

Dakin, R. B. (R. D. Owen), Bath.
 Dale, A. C. H. (A. E. R. Formoy), London.
 Dancer, F. B. (H. W. C. Bartlett), London.
 Dane, T. E. (H. C. Cox), Manchester.
 Davis, F. A. W. (J. P. Cordery), Malvern.
 Dawkes, J. (R. O. N. Ward), Birmingham.
 Dennes, P. W. (P. D. Lacey), Bristol.
 Dennett, (Miss) H. J. M. (R. B. Leech), Coventry.
 Dixon, B. (J. Talbot), Oldham.
 Dodd, P. T. J. (S. A. Letts), London.
 Donnelly, D. C. (J. B. Yearsley), Manchester.
 Dove, S. S. (A. S. Sokel), London.
 Dowsett, P. A. (R. J. Holbrook), London.
 Doyle, A. B. C. (H. K. Turner), Liverpool.
 Drinkwater, M. S. (W. D. Richey), Birmingham.
 Dunning, N. (A. Rainbow), Houghton-le-Spring.
 Dutt, K. K. (S. J. Melbourne), London.

Edwards, D. D. (R. Bentley), Southampton.
 Elcombe, G. R. S. (D. D. Rae Smith), London.
 Ellick, R. S. (H. A. Owen), London.
 Ellis, J. R. (J. G. Raymond), Chester.
 Evans, T. W. (H. W. Thomas), Swansea.
 Everist, M. C. (formerly with B. Mayer, deceased), London.

Falconer, A. P. (G. H. Fowler), Grimsby.
 Fargher, W. G. (R. Bibby), Manchester.
 Farmer, J. A. C. (M. R. Davies), Dorking.
 Fay, M. A. (J. Mayhew-Sanders), London.
 Fewkes, B. A. (W. H. Worth), Leicester.
 Figov, K. J. (A. A. Nyfield), London.
 Finch, M. H. A. (H. Dakin), Sheffield.
 Flint, R. J. (J. B. Brierley), Oldham.
 Foot, R. J. (F. L. Attenborough), Derby.
 Ford, J. H. G. (J. Forsyth), Sunderland.
 Foster, I. F. M. (J. G. Hurst), Liverpool.
 Fowler, J. D. (K. S. Beecroft), London.
 Frankel, M. R. (B. C. Cornes), London.
 Frankland, T. C. (R. A. Hamlyn), London.
 Franklin, J. H. (D. E. F. Green), Luton.
 Franks, J. D. (A. G. Touche), London.
 Fraser, I. H. (R. Plummer), London.
 Fraser, R. S. (W. A. Heap), Bradford.
 Free, I. E. T. (G. P. L. Hudson), Stroud.
 Freedman, M. (E. C. Silver), London.
 French, D. T. (W. Yarwood), Harrow.
 Fulton, G. M. (W. G. Wilson), Liverpool.
 Fyson, D. R. (F. W. Le B. Lean), London.

Galvin, P. J. (L. C. Williams), Manchester.
 Garman, D. O. (E. G. F. Cartwright), Horsham.
 Gay, J. E. (S. Fawcett), Salisbury.
 Gell, P. D. M. (W. H. Newton), Birmingham.
 Gent, R. P. (A. L. Rowell), Bristol.
 George, D. W. (D. R. Vincent), Liskeard.
 Gerrard, R. K. (J. Higson), Bolton.
 Gething, J. A. B. (A. F. J. Kearns), Manchester.

Gibson, J. A. (R. B. Hill), London.
 Giffin, M. (G. Brown), London.
 Gillespie, K. J. (W. E. Gillespie), London.
 Gisborne, M. G. (C. H. Hogg), Nottingham.
 Godfrey, E. G. H. (G. L. Wiener), London.
 Gold, M. R. (M. P. Goodrich), London.
 Golding, M. E. (R. O. McArthur), London.
 Goodman, J. D. J. (J. R. Gregory), Brigg.
 Goodwin, A. E. (R. C. Deith), London.
 Govier, P. J. H. (W. G. Allen), London.
 Graham, J. A. (S. L. Lewis), London.
 Green, A. E. (J. Green), London.
 Green, T. H. D. (R. A. Pitt), Manchester.
 Greenslade, D. J. (A. Jacob), London.
 Greenslade, M. H. (J. S. Hillyer), London.
 Gregory, A. (T. R. Swallow), Oldham.
 Griffin, J. P. (A. C. Falkner), London.
 Groom, D. B. (C. W. Smith), London.
 Guest, R. T. (W. H. Minter), Brighton.

Haddleton, D. K. (J. S. Tams), Oxford.
 Hadley, M. J. (T. H. How), London.
 Haigh, W. (S. V. Turner), Manchester.
 Hall, E. N. (E. T. Worsley), Birmingham.
 Hall, J. L. (H. C. Mather), Southport.
 Hamilton, I. D. (W. R. S. Huyton), Preston.
 Hamilton, W. I. (C. E. Bream), Leicester.
 Handley, I. H. (A. J. Whittington), Winchester.
 Handley, N. A. (W. C. Nelson), Wolverhampton.
 *Hanson, J. D. (S. Sutcliffe), Halifax.
 Harbord, R. (J. D. Shepard), London.
 Harden, J. A. H. (formerly with G. H. Carbutt, deceased), London.
 Harden, P. L. (S. L. Forwood), London.
 Hardy, P. E. (C. D. Britten), Manchester.
 Harries, J. C. (A. Davies), Cardiff.
 Harris, P. W. (H. Fraser), London.
 Harrison, J. D. (R. St. C. Page), Nottingham.
 Hart, I. M. (W. L. Thurgood), London.
 Hartley, B. N. (F. K. Murfitt), Nelson.
 Haslam, F. J. (F. Haslam), Warrington.
 Hatton, R. W. (J. R. P. Broadhouse), Birmingham.
 Hawken, R. A. (N. W. Osborne), London.
 *Hawkins, D. R. (C. R. Goulder), London.
 Haywood, P. R. (H. Hebblethwaite), Sheffield.
 Heacock, D. J. (W. E. Cox), Birmingham.
 Helps, P. (L. J. W. Gould), London.
 Henzell, T. G. (T. K. Allan), Newcastle upon Tyne.
 Hewitt, E. J. (W. R. Burrough), London.
 Hewitt, J. A. H. (H. D. Bessemer), London.
 Hicks, D. G. (F. G. Jenkins), London.
 Higgins, B. A. (W. E. Thompson), Manchester.
 Hill, D. K. (L. McGillivray), London.
 Hills, J. W. (J. F. Aitchison), London.
 Hing, R. U. (S. J. Melbourne), London.
 Hodgson, P. H. (C. W. Raw), London.
 Hodson, C. B. (H. F. Shapland), Minehead.
 Hogg, R. D. (A. C. Coe), Skipton.
 Holladay, S. M. (H. Dakin), Sheffield.
 Holland, W. R. (M. F. Andrews), Bristol.
 Holmes, B. S. (C. F. Bland), Colchester.
 Holmes, K. E. (E. T. Denton), Liverpool.
 Holmes, K. M. (F. W. Boyce), Bradford.
 Horne, R. E. (D. E. F. Green), London.
 Horrell, P. J. (A. A. Davies), Birmingham.
 Horton, J. R. (H. O. H. Coulson), London.
 Hoskins, G. M. (A. C. Bright), Richmond, Surrey.
 Hubbard, J. C. (W. S. W. Fone), London.
 Hughes, D. H. (R. H. V. Thomas), Swansea.
 Hunt, J. B. (G. J. Pollard), Taunton.

Isaacson, H. (W. J. Leeming), London.

Jackson, M. J. (W. N. Coope), Bolton.
 *Jaeger, J. M. L. (E. D. Taylor), Leeds.
 Jay, (Miss) B. E. (G. E. Child), Worthing.
 Jervis, J. G. (H. Battye), Sheffield.
 Johnson, P. L. (E. R. Bosley), Birmingham.
 Jones, B. H. (G. A. Smalley), London.
 Jones, B. S. (A. B. Richardson), Hastings.
 Jones, B. W. (J. A. Edwards), Manchester.
 Jones, C. S. (W. R. McBrien), Hastings.
 Jones, H. N. M. (C. H. Moors), Liverpool.
 Jones, R. C. (J. H. Williams), Manchester.

Kassim, A. R. (A. D. Young), New Malden.
 Kaye, J. N. (B. Wilson), Huddersfield.
 Kaye, S. G. (B. Wilson), Huddersfield.
 Kell, D. W. (P. Cooper), Newcastle upon Tyne.
 Kelley, J. F. (T. H. Burdon), Bradford.
 Kerrigan, M. P. (A. H. Whalley), Leeds. (*The William Quilter Prize (shared with one other.)*)
 Khodeir, M. I. I. (I. C. Griffiths), Manchester. (*Plender Prize for the English Law (Part II) paper.*)
 Knight, M. A. (J. G. Harper), Guildford.

La Niece, D. J. (I. C. Paterson), London.
 Lapiash, J. I. G. (J. C. Boyce), Bradford.
 Law, B. W. (H. Robinson), Barnsley.
 Lawley, B. W. (E. B. Westwood), Birmingham.
 Lawrence, P. M. (G. G. Goode), Birmingham.
 Lea, G. W. (G. H. Murray), Manchester.
 Le Brocq, E. M. (H. F. Davis), London.
 Lee, R. A. (C. N. Lee), Bradford.
 Leedham, P. (S. V. Mann), London.
 Leighton, H. G. M. (A. E. M. Harbottle), Bristol.
 Lewis, H. L. (R. D. Collingwood), Blackburn.
 Lewis, L. (B. Rose), London.
 Lindop, C. C. (C. I. Vernon), Crewe.
 Liptrot, J. T. (T. H. Blane), Blackpool.
 *Liversidge, J. (A. F. Sergeant), Leeds.
 Llewellyn, M. C. (H. F. Dauncey), London.
 Longden, E. (B. Barnett), Mansfield.
 Lord, J. F. L. (Sir S. H. Gillett), London.
 Lowden, D. G. (S. L. Forwood), London.
 Lucas, B. C. (J. P. Clayton), London.
 Lumb, N. G. K. (L. Wilson), Halifax.
 Lyon, H. (T. J. Harrison), Liverpool.

McHugh, M. R. H. (D. W. Pratt), London.
 Macmillan, D. C. (J. Sharp), Carlisle.
 Maden, C. J. (H. Crawshaw), Accrington.
 Marsh, A. W. (K. Pilling), Bolton.
 Martin, G. H. (J. B. Sweeney), London.
 Mason, A. J. (B. F. Jukes), Hastings.
 Masters, A. E. H. (G. P. Clarke), London.
 Matthewman, J. S. (G. S. Major), Birmingham.
 Matthews, J. L. (C. E. Corney), Birmingham.
 Mattison, J. (K. L. Morton), London.
 May, J. W. H. (J. C. Gardiner), London.
 Mead, D. H. (E. H. Channon), London.
 Messere, D. R. (C. S. Stephens), London.
 Midgen, H. (J. T. Rutherford), London.
 Miller, D. B. (R. P. Smith), Chorley.
 Millington, B. (H. Cook), Wolverhampton.
 Milne, W. S. (H. C. Cox), Manchester.
 Minns, B. D. (D. C. Watt), London.
 Mitchell, D. O. (J. H. Whitley), London.
 Morgan, D. G. (R. W. West), London.
 Moseley, P. T. (H. A. Ryley), Smethwick.
 Motteram, R. W. (G. F. Middle), Stourbridge.
 Mould, J. S. (R. M. Lang), London.
 Mundy, A. D. (R. S. Ford), London.
 Murphy, D. (J. S. Frith), Manchester.

Nagati, K. A. H. (J. B. Yearsley), Manchester.
 Neville, D. J. (N. M. Askwith), London.
 Newbold, D. (P. H. Stone), Birmingham.
 Newman, F. R. (C. Cantor), London.
 Newson, C. S. (A. Clark), Derby.
 Nicholson, R. M. (J. T. Corbett), London.
 Nicolaou, A. Y. (H. A. Beale), Birmingham.
 Nightingale, T. B. (J. W. Eckersley), Manchester.
 Norman, W. K. (A. A. Bradshaw), Cranleigh.
 Norton, T. M. J. (S. B. Smith), Liverpool.
 Norwood, M. C. (J. M. Herring), Durham.

*Oddy, F. M. (J. W. G. Mitchell), Bradford.
 Oldham, K. M. (G. B. Murgatroyd), Bury.
 Olivier, J. J. J. (L. H. Davies), London.
 Olof, B. E. (F. H. C. Christmas), London.
 Owen, E. W. (G. Flower), London.

Paiba, M. D. (S. F. Shuttleworth), London.
 Panditharatna, N. G. P. (H. McD. Morison), London.

Parke, D. B. (R. C. Barnes), London.
 Parkin, K. (T. Bourne), Burton-on-Trent.
 Parsons, O. J. (E. Richmond), London.
 Patel, I. B. (G. J. W. Bean), London.
 Pattison, R. H. C. (F. L. Moore), London.
 Peacock, D. H. A. (A. Bell), Newcastle upon Tyne.
 Pelton, D. (L. Goldwyn), London.
 Perriam, C. P. (G. P. H. Smith), Exeter.
 Perrin, J. H. (F. N. Cottrell), Eastbourne.
 Perrins, J. N. (W. E. S. Hooper), Southport.
 Perrins, R. E. G. (W. E. S. Hooper), Southport.
 Petch, B. I. (J. T. Ketterer), Leigh-on-Sea.
 Phillips, R. H. (J. M. Selby), London.
 Phillips, S. F. (R. H. Martin), Cardiff.
 Pickering, N. (N. H. Parkinson), Leicester.
 Pickup, A. W. (L. K. Wilson), Warrington.
 Poirrette, J. A. (K. H. Mackenzie), Liverpool.
 Pooley, G. W. (E. W. E. Chapman), London.
 Pooley, M. L. (P. A. C. Vincent), London.
 Pope, W. M. J. (J. M. Watson), Bournemouth.
 Portley, J. E. (R. J. G. Lethbridge), Exeter.
 Powell, J. F. (W. Hepburn), London.
 Power, J. R. le P. (F. G. Feather), London.
 Pullen, J. H. R. (A. E. C. Hartnell), London.
 Pullen, R. W. (R. J. Butterworth), London.

Quartermain, R. E. (F. S. Worms), London.
 Quick, L. F. (J. D. Lyall), Penzance.
 Quie, V. M. (M. Bennett), London.
 Quinn, P. H. (F. J. Smith), London.

*Ransom, R. S. (W. H. Mason), London.
 Rathjen, I. T. (M. Farmer), London.
 Rawlinson, B. (R. Tunnard), Wisbech.
 Rawson, P. R. (F. W. Freeman), Preston.
 Read, J. P. (C. H. March), Cardiff.
 Rendle, R. (M. G. Spofforth), London.
 Renshall, J. M. (J. A. Appleton), Liverpool.
 Richards, C. W. (C. R. Shakespear), Leicester.
 Richardson, R. (H. Wood), Bishop Auckland.
 Riddles, J. (F. W. Jones), Lewes.
 Rixom, R. G. (F. V. Denton), Liverpool.
 Roberts, A. (W. E. Roberts), Stockport.
 Roberts, D. G. (J. S. Rogers), Llandudno.
 Roberts, D. R. (K. B. S. Crowhurst), London.
 Roberts, G. J. (W. H. Lawson), London.
 Roberts, T. J. (T. Hughes), Llanrwst.
 Robertshaw, J. D. (R. H. More), London.
 Robotham, J. M. (S. V. Lancaster), Birmingham.
 Robson, D. W. (E. G. Lambard), London.
 Robson, G. (H. J. Greenacre), London.
 Rodericks, J. V. (A. L. Wade), London.
 Ronayne, P. H. (L. E. Fillmore), London.
 Rooley, D. A. (C. L. Smith), Bradford.
 Rugg, R. J. (P. Ewen), London.
 Rumney, W. L. (W. Pomfret), Preston.
 Russe, A. J. (N. L. Denning), Bristol.
 Russett, D. R. (C. H. Young), Bristol.

Sagar, R. F. (H. C. Ingham), Nelson.
 Salem, M. K. M. (C. L. Walker), London.
 Sankey, J. (A. W. Parker), Manchester.
 Savage, M. J. (R. C. Horton), London.
 Savell, R. A. (H. W. Bramley), London.
 Scammell, P. A. (J. C. J. Clark), Hove.
 Scholes, N. (F. Avison), Oldham.
 Scott, L. J. (E. J. Rogers), London.
 Scott, R. I. M. (G. N. Hunter), Leeds.
 Searle, J. G. (C. H. Pomfret), Liverpool.
 Sharman, C. J. R. (W. H. Wright), London.
 Shaw, A. E. (F. G. Nicholas), Hanley.
 Shaw, K. G. (J. Yates), Ashton-under-Lyne.
 Shepherd, R. F. (R. A. W. Caine), London.
 Sheppard, J. A. (A. S. Watson), Southampton.
 Sherwood, A. (N. M. Cohen), London.
 Simmons, A. H. (S. Kershner), London.
 Simpson, J. D. (R. A. Brown), Manchester.
 Skinner, P. J. (L. V. Slater), Cambridge.
 Slater, M. H. (N. G. Willis), Liverpool.
 Smith, A. M. (G. O. Sutton), Hove.
 Smith, A. M. (J. H. Turnbull), Leeds.
 Smith, B. B. (G. N. Fullagar), Liverpool.

* See also Certificates of Merit above.

Smith, R. C. (L. J. Redall), London.
 Smith, W. L. L. (H. Gould), London.
 Snaedden, J. L. (R. E. Herington), Birmingham.
 Sole, C. J. (G. L. Aspell), Leicester. (*Plender Prize for the Taxation paper*).
 Sorley, P. G. (M. R. Harris), London.
 Sparrow, J. (F. J. Chivers), London.
 Speare, D. F. (H. E. Cooper), Bristol.
 Springall, R. (W. E. Lamaison), London.
 Stead, C. E. (formerly with E. D. St. Clair, deceased), London.
 Stedman, G. J. (B. Russell), Camelford.
 Steeley, G. L. (D. G. T. Crabbe), Birmingham.
 Steward, S. J. (L. D. Clarke), London.
 Stewart, R. H. (T. H. Bell), Manchester.
 Stone, B. J. (R. H. Jenkins), London.
 Stuck, A. G. (S. Morris), Reading.
 Sugar, M. (A. Parker), London.
 Sullivan, G. H. (J. J. Smith), Newcastle upon Tyne.

Talbot, P. J. (R. L. Latimer), London.
 Tate, D. A. (B. Braham), London.
 Taylor, C. M. (A. J. Lovatt), Peterborough.
 Taylor, G. B. (G. P. Marsden), Halifax.
 Taylor, R. B. (R. L. Crowther), Huddersfield.
 Temple, J. G. S. (T. C. Squance), Sunderland.
 Thomas, G. A. (W. R. Tomkinson), London.
 Thomas, P. G. A. (A. L. Barnett), Bristol.
 Thomas, P. M. (C. G. Jolliffe), Newport, Mon.
 Toole, P. J. (H. Rothwell), London.
 Townend, J. E. (J. Hankinson), Hull. (*Plender Prize for the Advanced Accounting (Part II) paper*).
 Trotter, D. R. (A. G. Williams), London.

Vakil, J. D. (C. D. Witton), London.
 *Varah, M. G. (G. W. Roberts), Bradford.
 Vavasour, I. M. (C. W. Smith), London.

Veitch, G. C. (T. J. W. Evans), Stockton-on-Tees.
 Vincent, P. J. C. (C. H. Wheeler), London.

Wagner, S. (H. Lubbock), London.
 Ware, J. D. (D. L. Stephenson), Grimsby.
 Warmington, B. L. (M. Farmer), London.
 Warner, N. (N. M. Cohen), London.
 Watt, P. M. (W. H. Blaxland), London.
 Webster, J. (D. Webster), London.
 Wedgwood, F. B. (J. F. Butlin), London.
 Wells, J. F. (R. L. Harrison), London.
 Westwick, C. A. (W. J. Cox), London.
 Whittaker, D. J. (A. B. Southern), Wolverhampton.
 Whitworth, A. E. (T. G. Wood), Manchester.
 Whyatt, R. G. (T. O. Brennan), London.
 Wickramaratne, E. De S. (A. Cotton), London.
 Wijesekera, N. G. A. D. C. De S. (A. C. C. Oddie), Bristol.
 Wildblood, F. R. J. (H. P. Board), Cambridge.
 Wildbur, J. R. (W. F. Whiting), Wisbech.
 Wilkinson, R. A. (H. S. Critchley), Oxford.
 Willcock, J. (H. McCreery), Manchester.
 Willett, C. G. (B. G. Rose), Birmingham.
 Willey, R. K. (T. L. C. Clerk), Plymouth.
 Williams, I. R. (F. Pool), Leicester.
 Williams, J. P. (R. D. Brewis), London.
 Willmot, J. (K. S. Beecroft), London.
 Wilson, J. V. (H. J. Williams), London.
 Winters, J. D. (R. H. Cobham), Birmingham.
 Wood, P. L. (W. B. Lindley), Leeds.
 Wood, T. C. (A. R. Round), Dudley.
 Woodiwiss, D. N. (A. I. Todman), London.
 Woolf, J. A. (R. A. Barter), London.
 Worton, J. (C. H. W. Sansom), Middlesbrough.
 Wright, C. S. (T. E. F. Leacock), London.

Yeo, (Miss) E. M. (A. L. Rowell), Bristol.
 Youngman, M. H. (J. A. K. Hall), St Albans.

455 Candidates passed.

521 Candidates failed.

INTERMEDIATE EXAMINATION

Held on May 21st, 22nd and 23rd, 1957

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize and the Plender Prize for the Auditing paper
 Baker, Laurence (V. Sklar), London.

Second Certificate of Merit, the Stephens Prize and the Plender Prize for the Taxation and Cost Accounting paper
 Worth, Brian Leslie (F. R. Coad), London.

Second Certificate of Merit
 Jackson, Kenneth William (P. F. Rogers), Liverpool.

Fourth Certificate of Merit and the Tom Walton Prize
 Quick, Edwin David (H. F. Shapland), Minehead.

Fifth Certificate of Merit and the Flight-Lieutenant Dudley Hewitt, D.F.C., Prize
 Webb, Anthony Clifford (B. Keohane), Newport, Mon.

Sixth Certificate of Merit
 Knowles, Timothy (J. C. M. Williams), Swansea.

Seventh Certificate of Merit
 Gooch, Wilson Edwin (A. S. H. Dicker), Great Yarmouth.
 Hamilton, James Edward Hume (I. H. Howard), Bristol.

Ninth Certificate of Merit
 Treadgold, Sydney William (H. E. Williams), Oxford.

Tenth Certificate of Merit
 Boswell, John Roderick (A. L. Blower), Wolverhampton.

Eleventh Certificate of Merit
 Dron, Henry (L. Whittaker), Canterbury.

Twelfth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Limited Companies) paper
 Godwin, Charles Richard (R. R. Elliott), Ilford.

* See also Certificates of Merit above.

Twelfth Certificate of Merit

Brooks, Beryl Harding (S. H. Brooks), Morpeth.
De-Zaporowicz, Peter Anthony Siegfried (O. E. Ames), London.
Spieler, Anthony (J. E. Fischer), Liverpool.

Sixteenth Certificate of Merit

Smith, Peter Anthony (J. W. Walkden), Northampton.

Seventeenth Certificate of Merit, the Frederick Whinney Prize and the Plender Prize for the Book-keeping and Accounts (Partnership) paper
Mason, Christopher Rhea (L. A. D. Winter), Truro.

Eighteenth Certificate of Merit

Pringle, Graham (J. C. Smethers), London.

Nineteenth Certificate of Merit

George, William John (P. H. Strode), London.

Twentieth Certificate of Merit

Butterworth, Nicholas (L. H. Clark), London.

Twenty-first Certificate of Merit

Barnes, John Alfred (H. E. Monson), London.
Robinson, Graham (K. McN. Black), Matlock.

Twenty-third Certificate of Merit

Evans, David Turner Glan (C. H. March), Cardiff.

Full List of Names of Successful Candidates
(in alphabetical order)

- | | |
|---|--|
| <p>Abbott, B. (W. Wild), Manchester.
Abernethie, J. A. (H. J. Jones), London.
Ackerman, M. (M. Lytton), London.
Ah-Chuen, D. (P. H. Smith), London.
Allan, D. (H. S. Humphrey), Eastbourne.
Allen, A. R. (P. S. James), Sidmouth.
Allen, F. W. (Junr.), (T. E. Swancott), London.
Allen, H. M. C. (J. A. Edwards), Manchester.
Allen, N. C. (J. B. Watling), Bristol.
Allen, W. G. (W. J. Gilbert), London.
Allsopp, R. M. (N. A. Wheatcroft), Sheffield.
Ansell, D. T. (D. G. Tate), London.
Armstrong, A. V. (J. S. Armstrong), Newcastle upon Tyne.
Artley, M. (D. W. Hobbs), Bradford.
Ashworth, J. B. (E. H. Newman), Leeda.
Aston, J. E. (H. J. Cotterill), Derby.
Atalla, M. S. A. H. (G. G. Thomas), Swansea.
Atherton, M. J. (A. C. Bright), Richmond, Surrey.
Atkinson, J. D. (R. L. Crowther), Huddersfield.
Azfar, S. (R. R. Nash), London.</p> | <p>Berry, G. V. (G. W. M. Phillips), London.
Berry, J. R. W. (P. W. Cooper), London.
Berry, M. F. (W. G. A. B. Gardner), Wolverhampton.
Bew, P. D. (R. Horton), Derby.
Bhushan, P. (C. J. Hayward), London.
Birch, C. C. (M. H. Marsh), Stoke-on-Trent.
Birkby, J. D. (K. G. Warriner), Leeds.
Birnie, J. T. (R. E. W. Curtis), Cambridge.
Bishop, G. (L. M. G. Harris), London.
Blackwell, T. G. (F. W. Lindgren), London.
Blake, M. J. (A. G. Cheston), London.
Blee, M. A. (W. R. C. Ogden), London.
Bliss, A. D. (B. Manners), London.
Blow, D. S. (J. B. Harrison), Grimsby.
Bolt, R. B. S. (R. D. Keyworth), Newton Abbot.
Bond, A. W. (A. P. Roberts), Birmingham.
Bone, M. J. S. (J. L. E. Daly), London.
Boothroyd, J. K. (C. D. Bolsover), Sheffield.
Borcham, B. A. (K. J. Lunnon), High Wycombe.
*Boswell, J. R. (A. L. Blower), Wolverhampton.
Boulton, B. C. (C. A. Bartlett), London.
Boulton, J. E. (G. W. Wood), Manchester.
Bower, M. L. (F. T. Smith), London.
Brewster, E. A. B. (L. S. Grigg), London.
Brewster, (Miss) C. H. (A. W. Wheeler), Tamworth.
Briggs, D. R. (N. L. R. Trounce), Manchester.
Briggs, W. R. (T. J. W. Evans), Stockton-on-Tees.
*Brooks, (Miss) B. H. (S. H. Brooks), Morpeth.
Broucher, (Miss) C. (G. D. Shepherd), Cardiff.
Brown, A. C. L. (W. E. Fitzhugh), London.
Brown, P. M. (C. Romer-Lee), London.
Brown, R. (A. W. S. Tabbernor), London.
Bryant, M. J. (N. D. Grundy), London.
Bryce, I. R. (R. L. Stockill), Driffield.
Buckley, S. (R. L. Corson), Blackpool.
Budd, R. H. (H. E. C. Andrew), Leamington Spa.
Buglass, A. (H. R. Wintrip), Newcastle upon Tyne.
Bullen, J. T. (W. H. Thomas), Liverpool.
Bunt, B. S. (D. R. Clack), London.
Bunting, C. W. (W. G. C. Oliver), Burton-on-Trent.
Burn, I. F. (J. E. Hilton), Newcastle upon Tyne.
Burn, R. E. (H. J. Hoby), Rochester.
Burney, Z-u-H. (A. G. Williams), London.
Butler, F. (D. D. Williamson), London.
Butler, R. (W. E. Broadbent), Ashton-under-Lyne.
*Butterworth, N. (L. H. Clark), London.</p> |
|---|--|
- Backhouse, B. J. (A. Smith), Manchester.
 Bacon, C. P. (G. L. Mortimer), Darlington.
 Bailey, D. M. G. (G. D. Cucksey), London.
 Bajaria, C. H. (A. Beckman), London.
 *Baker, L. (V. Sklar), London.
 Baker, R. B. (C. W. Archer), London.
 Baldwin, D. H. (A. J. Heald), Brighton.
 Ball, T. M. (R. S. Fryer), London.
 Barber, C. (C. W. Massey), Birmingham.
 Barford, J. (J. M. Howarth), Bolton.
 Barker, K. J. (F. Jones), London.
 Barlow, E. (J. A. Freeman), Bury.
 Barlow, R. C. (A. C. J. York), Bournemouth.
 Barnes, D. C. E. (J. B. Burkett), Bristol.
 *Barnes, J. A. (H. E. Monson), London.
 Barrowclough, R. (E. S. Etchells), Huddersfield.
 Batty, J. M. (K. W. S. Clark), London.
 Baynes, B. S. (G. Connelly), London.
 Bean, C. E. H. (E. F. Garrett), Guildford.
 Beckley, J. A. (F. W. Barnes), London.
 Bedding, R. W. (D. Browning), London.
 Beeby, J. E. (R. F. Watkins), Northampton.
 Bell, J. (W. Westall), Morecambe.
 Bell, R. J. (K. C. Pearce), London.
 Belt, J. S. (W. N. Chick), Nottingham.
 Bennett, D. C. (G. A. Clifford), Birmingham.
 Berlyn, G. (L. Stockman), London.
 Bermon, J. H. (L. Goldwyn), London.
 Cambray, N. J. (B. L. Monahan), Swindon.
 Cameron, B. K. (M. J. H. Morton), Grimsby.

* See also Certificates of Merit above.

Canfield, G. T. (J. W. Alington), Chelmsford.
 Carratu, A. D. J. (A. J. P. Smith), London.
 Chafen, J. St. C. (C. McAuley), London.
 Chandaria, K. M. (R. N. Salomon), London.
 Chaney, E. A. (H. Birch), Manchester.
 Charin, J. N. (J. C. Yeates), London.
 Chawner, M. A. (R. A. Haigh), Leicester.
 Cheetham, J. F. (D. J. Jones), Manchester.
 Christian, C. W. G. (W. N. Camp), Birmingham.
 Christophers, S. J. (M. E. P. Morgan), London.
 Churchill, J. H. (J. H. Pigg), Sunderland.
 Clampin, M. E. B. (J. A. Potter), London.
 Clark, R. W. (R. H. Darby), Birmingham.
 Clarke, D. H. L. (S. G. Sillem), London.
 Clarke, J. G. (J. L. Guy), London.
 Clarke, J. N. (H. M. Jones), London. (*Plender Prize for the General Commercial Knowledge paper*).
 Clarke, J. N. (E. A. Radford), Woking.
 Clarkson, P. B. A. (C. G. Johnston), London.
 Clowes, D. W. G. (E. D. Davies), London.
 Clowes, R. N. T. (E. N. T. Clowes), Ipswich.
 Cohen, K. (I. L. Haffner), Manchester.
 Coleman, L. (J. N. Rogers), Liverpool.
 Collinson, J. A. (R. O. McIlwrick), Manchester.
 Conn, D. S. (A. Whittaker), Sunderland.
 Connor, H. A. (L. G. Jones), London.
 Connor, R. C. (O. W. Green), London.
 Conrad, P. E. (W. F. Hague), London.
 Constantine, R. (J. O. Elphick), London.
 Cook, P. H. (R. G. Jennings), Sunderland.
 Coop, G. B. (H. M. Jones), London.
 Cooper, R. J. (W. H. B. Carey), London.
 Copeland, J. C. (G. G. Goode), Birmingham.
 Coxon, B. (J. Growcott), Louth.
 Crowther, A. S. (J. G. Worrall), Glossop.
 Crumpton, N. D. (J. Cappleman), Hull.
 Culling, D. A. (L. C. J. Brown), London.

Dann, J. M. (D. Smith), London.
 Davies, H. A. (R. Phelps), Bristol.
 Davies, J. (F. L. Prussman), Manchester.
 Davies, K. E. (J. M. Hanmer), Liverpool.
 Davies, M. (H. Tuckey), Birmingham.
 Davies, W. P. (C. G. Sparrow), Stockton-on-Tees.
 Davis, M. E. (E. W. Browell), Birmingham.
 Dawes, H. A. L. (B. W. Sutherland), Birmingham.
 Dennis, G. W. (K. L. Young), London.
 Deterding, R. (D. B. Smith), London.
 Deva, S. (D. F. D. Cartwright), Brighton.
 Dewhurst, R. F. J. (W. A. Tucker), London.
 Dexter, D. A. (P. A. Storey), Nottingham.
 *De-Zaporowicz, P. A. S. (O. E. Ames), London.
 Dickens, D. M. (N. T. Rigby), Manchester.
 Dicks, L. R. J. (R. J. Glissan), Birmingham.
 Dobbs, P. T. (E. T. Ashworth), Doncaster.
 Donald, H. (D. A. Jacobs), London.
 Dougherty, E. W. (M. G. D. Johnson), Sunderland.
 Drapkin, A. (G. Magnay), Newcastle upon Tyne.
 Drew, P. K. (J. L. Evans), Reading.
 *Dron, H. (L. Whitaker), Canterbury.
 Duff, (Miss) M. J. M. (M. J. Stewart), London.
 Duffy, H. J. (D. A. Owen), Leamington Spa.
 Dufton, J. R. (H. H. Blackburn), Bradford.
 Duncombe, N. R. (T. R. Cubitt), London.

Edge, J. S. (J. F. Waring), Bolton.
 Edgerton, B. G. (L. H. Davies), London.
 Edwards, R. J. H. (E. Holehouse), Nottingham.
 Egerton, H. R. (R. B. Dixon), Birmingham.
 El Cheikh, E. (N. H. Keen), London.
 Elliott, M. W. (L. E. Arrowsmith), Newcastle upon Tyne.
 Ellis, C. D. (B. MacD. Hennell), London.
 Ellis, H. W. H. (P. L. Neild), London.
 Emanuel, J. O. (Sir B. H. Binder), London.
 Emberson, H. A. (A. C. Falkner), London.
 Evans, A. J. (F. L. Felton), Birmingham.
 *Evans, D. T. G. (C. H. March), Cardiff.
 Evans, P. B. (R. H. Cromarty), Nottingham.
 Eve, A. R. W. (J. B. Saint), Carlisle.

Fabb, A. C. (H. R. Powell), Dudley.
 Farrar, R. G. (H. K. Easton), Birmingham.
 Farrell, M. (F. W. Guest), Birmingham.

Feldman, C. A. C. (F. G. Baker), London.
 Fisher, D. S. (R. Parker), Rayleigh.
 Fletcher, W. E. (W. L. Richardson), Birmingham.
 Fleury, M. A. (Sir H. G. Howitt), London.
 Flint, J. D. (R. A. Rowley), Leicester.
 Flood, J. A. (G. E. Richards), London.
 Fontes, A. R. (W. R. Carter), Manchester.
 Foott, A. M. (F. A. Bailey), Manchester.
 Fowler, M. A. (P. G. Wenham), London.
 Fox, R. M. (G. D. Cucksey), London.
 France, E. W. G. (P. J. L. Case), London.
 Freeman, D. D. (N. Freeman), London.
 Freeman, M. M. (A. N. Myers), Cambridge.
 French, P. J. (D. P. Briggs), Middlesbrough.
 Frost, S. (M. Berley), London.
 Fry, J. G. (W. R. Jenkinson), Sheffield.
 Fuller, R. S. (C. Chipchase), Middlesbrough.
 Fung, S. L. (C. A. Pocock), London.

Gaff, R. (E. F. W. Batts), London.
 Ganley, W. B. (J. B. Harding), Leigh.
 Geh, C. H. (M. R. Jackson), London.
 *George, W. J. (P. H. Strode), London.
 Gillam, P. J. (A. R. Hills), Luton.
 Gladstone, C. S. (G. Bostock), London.
 Glenister, R. D. (A. Cooper), Knutsford.
 Glover, J. S. (B. G. Davison), Leamington Spa.
 Goadby, R. (S. R. M. Hatson), Hinckley.
 *Godwin, C. R. (R. R. Elliott), Ilford.
 Gold, L. M. (C. Whitaker), Southsea.
 Goldspink, M. D. (F. L. Oldham), Boston.
 *Gooch, W. E. (A. S. H. Dicker), Great Yarmouth.
 Goodsir, G. S. (E. L. Pargeter), London.
 Gordon, K. W. (W. Wilson), Cheltenham.
 Gordon, M. D. (C. F. Middleton), London.
 Goulder, P. R. (S. B. Smith), London.
 Graham, K. (G. Beverley), Newcastle upon Tyne.
 Gratland, M. R. (G. G. Rollings), Neath.
 Gray, A. (T. L. Smith), Newcastle upon Tyne.
 Gray, I. P. W. (W. E. C. Offer), Oxford.
 Green, R. E. (S. W. Knight), London.
 Green, R. N. (R. C. P. Wheeler), Sudbury.
 Green, V. M. (W. Sowman), Leicester.
 Grey, C. J. (J. H. Ross), London.
 Grey, D. W. (K. G. Ayling), Bournemouth.
 Griffin, J. S. (N. J. Dodd), London.
 Griffiths, (Miss) A. (P. A. G. Mullens), Port Talbot.
 Groom, C. J. (S. A. Mapus-Smith), King's Lynn.
 Grossick, I. R. (H. B. Maraden), London.
 Groves, D. D. (D. J. Little), Cardiff.
 Groves, E. (I. A. Wallace), Brighton.

Habberton, M. J. (A. E. Limehouse), Rugby.
 Hacking, (Miss) J. M. (L. Jennison), Tring.
 Haddleton, M. (G. Ford), Bournemouth.
 Hadler, J. K. (K. S. Moore), London.
 Haig, S. L. (J. S. Newth), London.
 Hainsworth, B. (B. Wood), Bradford.
 Hall, P. A. (J. F. Allan), Liverpool.
 Hamilton, J. D. E. (A. E. Bayliss), London.
 *Hamilton, J. E. H. (I. H. Howard), Bristol.
 Hammond, E. G. (E. W. Hammond), Darlington.
 Hampson, M. (H. W. Southworth), Preston.
 Hampton, N. J. (E. W. P. Broad), Tunbridge Wells.
 Hampton, R. C. (D. B. D'Eath), London.
 Hancock, J. W. (F. L. K. Crowe), Weston-super-Mare.
 Harding, P. B. (H. R. Sewell), Birmingham.
 Harrington, F. W. (F. Hyde), Romford.
 Harris, A. H. (D. R. Evans), London.
 Harris, E. R. D. (M. J. Kirby), Coventry.
 Harris, M. (J. E. Mulcaster), Newcastle upon Tyne.
 Harrison, A. (J. W. Boothman), Blackburn.
 Harrison, C. G. (J. R. P. Broadhouse), Birmingham.
 Harrison, D. G. (A. M. Baker), Wolverhampton.
 Harrison, L. M. (W. Hare), Blackburn.
 Hart, D. H. (E. D. Adams), Bradford.
 Hartle, T. P. (P. Nuttall), Manchester.
 Hartley, S. L. (R. F. J. Partridge), Romford.
 Harvey, J. L. (F. Warren), Camborne.
 Harwood, T. P. (G. S. Middleton), London.
 Hawkins, A. W. (A. A. F. Redwood), Bristol.
 Hay, J. B. (G. C. Toulmin), Brighton.
 Hayton, J. M. (D. S. Stevens), London.
 Heaford, J. A. (S. V. Turner), Manchester.

* See also Certificates of Merit above.

Healey, M. A. (C. E. West), London.
 Heaney, F. (F. G. Jenkins), London.
 Hendry, J. S. (E. Mitchell), Halifax.
 Henley, M. D. R. (R. M. Evans), Birmingham.
 Heslop, D. S. (V. W. Heslop), Darlington.
 Hewitson, R. P. (J. L. Crow), London.
 Hewitt, K. A. (K. A. Fossey), Leeds.
 Hickabottom, R. M. (P. R. Spooner), Gainsborough.
 Higham, P. (R. K. Fairbrother), London.
 Hill, A. M. H. (G. A. Raymond), Tunbridge Wells.
 Hindle, M. R. (D. R. Hindle), London.
 Hocknell, B. T. (W. Young), London.
 Hodges, J. T. C. (H. P. Green), London.
 Hoffman, H. (S. A. Kleinberg), London.
 Hogan, A. J. (G. C. Ehlers), Bristol.
 Hogg, B. P. (G. D. Linklater), Newcastle upon Tyne.
 Holden, L. W. (D. B. Nurdin), London.
 Holdstock, T. (F. E. Corbin), London.
 Holiday, F. M. (S. J. Pears), London.
 Holland, P. B. (E. W. Watts), London.
 Holloway, J. A. D. (R. G. Tilley), London.
 Holman, D. M. (R. T. Smith), Rhyl.
 Holman, H. A. (J. W. Perman), London.
 Holtom, T. D. (H. E. Hassell), London.
 Honeyfield, R. J. (P. J. Madge), Southampton.
 Hoole, R. G. (J. J. C. Mack), London.
 Hosny, A. H. (G. T. Cheetham), Manchester.
 Howorth, H. (G. W. Jackson), Manchester.
 Howells, D. G. (J. M. Dinwoodie), Newbury.
 Howey, W. D. (M. E. Smith), London.
 Howgate, R. D. (A. G. Smeeton), Sheffield.
 Hoy, M. R. (S. V. Austin), London.
 Hubbard, A. M. (D. J. Ginnings), London.
 Hughes, M. J. (C. G. Jolliffe), Newport, Mon.
 Hughes, N. G. (J. Thornton), Oxford.
 Hughes, R. P. (Clarke), Bolton.
 Hughes, R. E. (G. L. Williams), Rhyl.
 Hunsley, E. (E. Chaloner), Manchester.
 Hunter, R. (R. Hunter), London.
 Hurst, (Miss), A. M. B. (J. B. Sweeney), London.
 Hurst, C. D. G. (E. P. Thornhill), Bristol.

Irwin, G. (F. Swainston), Newcastle upon Tyne.

Jackson, G. S. (J. H. Ross), London.
 * Jackson, K. W. (P. F. Rogers), Liverpool.
 James, R. (A. S. Watson), Southampton.
 Jefferies, A. R. (H. G. Jefferies), Langport.
 Jenkins, B. S. (B. Marsh), Liverpool.
 Jenkins, R. W. (R. C. Munday), London.
 Johnson, R. H. (P. C. G. Larking), Maidstone.
 Johnston, J. M. (E. G. Wilcox), Birmingham.
 Johnston, W. D. K. (C. R. Shakespear), Leicester.
 Jones, C. A. (J. F. Long), Stockport.
 Jones, C. D. (D. G. Weston), London.
 Jones, D. C. S. (S. C. Mallett), Birmingham.
 Jones, D. L. (R. G. Thomas), Swansea.
 Jones, K. A. (H. McCann), Manchester.
 Jones, M. L. (W. R. Holden), Hull.
 Jones, P. G. (A. E. Cook), London.
 Jones, R. V. C. (G. F. K. Morgan), Cardiff.
 Jones, V. B. (E. Lord), Birmingham.

Kelly, G. B. (J. McCarthy), Manchester.
 Kelsall, G. C. (H. S. Stafford), Manchester.
 Kempsell, K. (C. E. West), London.
 Kercher, P. F. (M. Perkins), Bristol.
 Khoo, (Miss) M. Y. (G. H. Michaels), London.
 Kidwai, I. Z. (D. G. T. Crabbe), Birmingham.
 Kind, T. B. (S. Parkinson), Leicester.
 Kirk, M. D. (M. Wells), Leicester.
 Kirkham, F. D. (F. Downing), Sheffield.
 Kirkland, G. G. (G. S. Middleton), London.
 Kitchingman, W. N. (D. Pearson), Leeds.
 Knowles, D. W. (F. C. Darwell), Blackpool.
 * Knowles, T. J. C. M. Williams), Swansea.
 Kon, S. (A. M. Fisher), London.
 Kon, Y. K. (F. E. Hargreaves), London.

Laidler, J. (W. G. Miller), Newcastle upon Tyne.
 Laing, D. (D. L. T. Creer), York.
 Lall, M. M. (P. G. Heslop), London.

Lambert, P. L. (M. H. Leese), Manchester.
 Lee, B. W. (A. F. G. Blissett), Nottingham.
 Leece, T. D. (W. Lodge), Liverpool.
 Lemon, G. R. (F. L. Woolley), Southampton.
 Le Neve Foster, P. V. (H. E. Harden), London.
 Leonard, G. L. (D. J. Ginnings), London.
 L'Estrange, J. S. (D. L. Combridge), London.
 Levine, A. R. (I. B. Paul), London.
 Lewis, D. (P. Shirley), Manchester.
 Lewis, J. (J. B. Brierley), Oldham.
 Lewis, W. A. (W. B. Tatlow), Llandudno.
 Light, K. H. L. (J. K. Dick), London.
 Lock, P. R. H. (H. R. Mole), Taunton.
 Lockwood, D. G. (H. L. Barnes), Stratford on Avon.
 Long, J. M. (J. Morris), Manchester.
 Lovell, T. R. (C. R. Pickup), Bacup.
 Lowe, R. C. (C. F. Eilbeck), Liverpool.
 Luck, R. V. E. (J. R. Pullan), London.
 Luckhurst, S. T. (R. Hall), Grays.
 Lunt, C. R. (N. H. Russell), Birmingham.
 Lunt, M. J. W. (A. E. Spicer), London.

McAlister, M. I. (E. D. McMillan), London.
 McKinlay, R. D. (N. G. Willis), Liverpool.
 Macduff, R. A. (A. S. Donald), Bournemouth.
 Macgregor, A. I. (L. P. Nicholls), London. (*Plender Prize for the Book-keeping and Accounts (Exeuntorship) paper.*)
 Machin, J. F. C. (M. Green), Daventry.
 Mackay, C. T. (D. B. Hirshfield), London.
 Madigan, A. W. (F. H. Taylor), London.
 Major, P. (J. S. Pollard), London.
 Mann, V. M. G. (C. W. Smith), Ipswich.
 Manning, C. R. (B. L. Becker), Southport.
 Mantel, R. (I. W. Clemence), Beckenham.
 Manterfield, R. D. (H. Bowker), Sheffield.
 Marriott, S. G. (J. Black), Chesterfield.
 Martin, J. S. (A. J. Page), London.
 * Mason, C. R. (L. A. D. Winter), Truro.
 Masters, N. D. (S. Kriteaman), London.
 Matthews, P. K. (F. R. Coad), London.
 Mattison, D. J. (R. Mould-Graham), Newcastle upon Tyne.
 Maxwell, R. B. (J. L. Kitching), Leeds.
 Mayhew, P. (K. R. Gray), London.
 Mendelsohn, R. G. (R. T. Janney), Birmingham.
 Mendoza, M. B. (E. L. Langton), London.
 Merricks, G. W. (V. D. Wykes), London.
 Merry, J. E. (H. J. Wakelin), Lichfield.
 Middleton, D. J. (T. Whittam), Colne.
 Migdale, P. R. (C. H. Duff), London.
 Miles, D. W. (C. E. Lester), Tunbridge Wells.
 Miller, D. F. (R. J. Carter), London.
 Minter, M. A. (F. L. Gower), Ipswich.
 Mitchell, D. B. (C. Gee), London.
 Moakes, C. J. (A. L. Morell), Nottingham.
 Molyneux, A. D. (C. C. Taylor), Liverpool.
 Montgomery, R. A. (S. W. Cornwell), Bristol.
 Moorby, T. J. (F. Steward), Ipswich.
 Moore, G. E. (S. E. Hayes), Blackburn.
 Morfey, G. S. (C. R. Akers), London.
 Morgan, B. A. (W. R. Bralesford), Nottingham.
 Morgan, D. L. (D. A. Ponsford), Winchester.
 Morris, J. R. (D. C. Hobson), London.
 Moss, K. C. (M. Lewis), Liverpool.
 Mouncey, K. (N. Townsend), Goolle.
 Mulla, E. T. (W. H. Johnstone), London.
 Murphy, J. (K. W. Bouch), London.
 Murray, P. J. (G. A. Taylor), Wakefield.
 Myers, A. C. A. (W. S. Carrington), London.
 Myers, J. J. (G. R. Lucraft), Brighton.

Nabavi, P. (G. G. Cooke), Leicester.
 Nathan, B. H. (L. H. Fink), London.
 Naylor, A. R. (L. M. Biggs), Guildford.
 Nelson, B. H. (W. G. Miller), Newcastle upon Tyne.
 Newman, A. G. (I. G. Miller), Cardiff.
 Nicholson, R. E. (J. C. Hardy), London.
 Nickell, P. H. (C. E. Bond), London.
 Norbury, R. L. (H. K. Poppleton), Manchester.
 Nursaw, R. G. (B. W. Vincent), London.

Oates, M. L. (C. A. Haslam), Nottingham.
 Oldfield, D. W. (P. J. Butterworth), Bridgewater.
 Oliver, J. D. B. (C. E. V. Salisbury), Bedford.

* See also Certificates of Merit above.

Over, R. J. (J. R. Tovey), Reading.
Owen, B. T. (F. J. Chivers), London.

Packer, W. R. (R. L. Harrison), London.
Palmer, M. J. (J. T. Patterson), London.
Paris, A. E. (C. E. Thurlow), London.
Parker, C. J. (W. N. Crebbin), London.
Parker, J. H. (R. G. West), Banbury.
Parkinson, J. P. (J. F. Allen), Manchester.
Parsons, C. M. (J. A. Owers), London.
Peach, K. (A. N. Mills), Matlock.
Peake, D. C. (G. C. Jarvis), London.
Pearce, G. J. (J. S. Sutton), Birmingham.
Peel, M. C. (A. B. Sandal), March.
Penn, E. A. (S. V. Mann), Coventry.
Pereira, A. F. C. (J. C. Kent), Liverpool.
Perryman, (Miss) B. K. (D. B. Lawson), London.
Peters, I. D. (T. Bromley), Bolton.
Pethen, D. K. (S. C. Saunders), Portsmouth.
Phillips, B. E. (M. A. Horsley), Birmingham.
Phillips, C. A. (H. Tonge), Oxford.
Phillips, D. P. (J. C. M. Williams), Swansea.
Pickard, B. M. (C. H. O. R. H.-R. Kohler), London.
Pierce, B. J. (L. M. Wildbore), Birmingham.
Pinnock, R. L. (J. H. Penfold), Brighton.
Pomeroy, J. V. (J. B. Worley), London.
Portch, M. E. (W. B. Paton), London.
Powell, D. S. (H. R. Powell), Dudley.
Powley, R. (G. D. Weir), Sunderland.
Pratt, J. A. (L. N. Coombe), London.
Prescott, A. J. (C. H. Maymon), Preston.
Price, K. E. (J. R. Riddle, Jnr.), Shrewsbury.
*Pringle, G. (J. C. Smethers), London.
Proffitt, P. R. (L. Owen), Birmingham.
Provan, D. (S. J. E. Truman), London.
Pugh, J. A. C. (M. J. F. Shaw), Cambridge.
Pullin, R. A. (E. Mitchell), Halifax.
Pyne, A. D. (S. Morris), Reading.

*Quick, E. D. (H. F. Shapland), Minehead.
Quickfall, J. E. H. (J. C. Dawson), York.

Ray, S. P. (H. C. Allen), London.
Rayment, P. C. F. (E. C. Jones), London.
Reddish, G. J. (R. W. Gorman), London.
Redfern, A. (S. Atkinson), Manchester.
Redpath, N. H. (H. G. Hayman), London.
Reed, M. D. (B. J. Davis), London.
Reed, (Miss) P. M. (J. Reed), South Shields.
Reeder, T. (C. R. de la Wyche), Manchester.
Rhead, D. M. (K. Hayes), Birmingham.
Rhodes, S. E. (P. W. Townsend), Halifax.
Richards, D. P. (O. Couze), Birmingham.
Riley, K. J. (F. K. Wilby), Leicester.
Roberts, D. W. F. (S. Marsh), St Helens.
Roberts, J. H. (I. Legge), Liverpool.
Roberts, R. E. S. (R. Casey), London.
Roberts, S. H. (L. B. Wright), London.
Robinson, C. J. (F. G. Mellersh), London.
*Robinson, G. (K. McN. Black), Matlock.
Robinson, I. N. (G. Anderson), Newcastle upon Tyne.
Robotham, E. H. (G. S. Norris), Liverpool.
Rogove, A. I. (R. Marks), London.
Romary, J. G. R. (J. Birkett), Bristol.
Rosenbloom, S. A. (C. Green), Manchester.
Ross, F. D. (L. M. Wildbore), Birmingham.
Rossiter, J. M. (R. H. Powell), Weston-super-Mare.
Rowe, A. S. (C. Bradshaw), Warrington.
Rowley, D. J. D. (A. Green), Liverpool.
Roy, K. P. (L. W. Glyde), London.
Russell, M. W. (L. V. Russell), London.
Ryder, G. I. (A. Neil), Manchester.

Saha, M. L. (S. Sherwood), Croydon.
Sales, J. A. (W. R. C. Ogden), London.
Salmon, R. E. F. (G. F. Salmon), London.
Saltmarsh, R. M. (D. G. Tate), St Albans.
Sanderson, R. G. (R. W. Swinbank), Stockton-on-Tees.
Sargent, F. S. (E. T. Shepherd), Cardiff.
Sargent, G. F. (W. K. Wells), London.
Sarkar, D. N. (F. R. Terras), Manchester.
Schindler, A. W. (L. Irvine), London.
Schofield, J. O. (R. N. Jones), Aberystwyth.
Scott, W. M. (A. L. Barnett), Bristol.
Sears, P. A. (D. G. Bee), Preston.
Secker, A. I. (H. A. Nock), Dudley.
Seddon, P. H. (R. L. Davies), Northwich.
Sedman, B. (A. Martyn), Grimsby.
Selby, W. D. (W. H. Morton), London.
Sellwood, D. J. (E. Portlock), London.
Seymour, G. B. (A. D. Johnson), London.
Sharrock, J. B. (R. B. Sellers), Preston.
Shaw, A. (R. Bibby), Manchester.
Shaw, E. A. (J. W. Pearson), Birmingham.
Shaw, P. W. (E. M. Butterworth), Derby.
Shaw, V. F. (E. Manby), London.
Sheena, A. A. (M. Apple), London.
Shepherd, W. J. (L. Gutermaun), Manchester.
Sherwin, G. (B. Lister), Doncaster.
Short, C. M. (A. B. Wilson), London.
Siddons, E. G. (E. H. King), Birmingham.
Sills, M. R. T. (S. A. Woolven), Liverpool.
Simpson, C. A. (J. F. Shutteworth), London.
Simpson, R. (J. N. Straughan), Chester-le-Street.
Slack, G. (A. Forsyth), Derby.
Slater, G. R. (C. K. Jordan), Manchester.
Slater, P. F. (A. Dawson), Sheffield.
Sleep, D. J. (S. R. Perratt), Taunton.
Sly, J. R. (D. A. Tripp), London.
Smart, A. B. W. (J. B. Watling), Bristol.
Smith, A. T. (E. Walkden), Bolton.
Smith, C. H. P. (J. L. E. Daly), London.
Smith, D. H. (F. W. Farnsworth), Derby.
Smith, D. M. (A. H. Smith), Spalding.
Smith, H. R. (A. J. Lovatt), Peterborough.
Smith, M. C. (A. E. B. Foxwell), Kettering.
Smith, M. L. (M. D. Murray), Walton-on-Thames.
Smith, M. W. (A. Pennington), London.
*Smith, P. A. (J. W. Walkden), Northampton.
Smith, R. H. (W. E. Thompson), Manchester.
Snell, J. W. (E. F. Tuffrey), London.
Sneller, J. E. (R. G. Wallis), London.
Sovin, L. J. (H. Newman), London.
Spens, W. G. M. (W. G. Brookes), London.
*Spieler, A. (J. E. Fischer), Liverpool.
Stead, R. (W. H. H. Hutchinson), Hull.
Stephens, R. E. (J. Winn), Newcastle upon Tyne.
Sterne, A. J. (T. R. Keens), Luton.
Stevens, P. R. (J. T. Corbett), London.
Stokes, R. H. (S. F. Gore), Margate.
Struel, I. (F. A. Adams), Cardiff.
Summerfield, P. G. (W. M. Atwood), London.
Sussman, H. G. S. S. (D. Warner), London.
Sutton, (Miss) E. M. (C. H. Ivens), Rugby.
Swaddle, A. P. (W. Patterson), Newcastle upon Tyne.
Swingler, J. A. (A. E. Jacobs), Birmingham.
Swift, D. F. (L. Jacques), Manchester.

Tait, W. G. (J. A. Calverley), London.
Tanner, J. F. (J. F. D. Yerbury), London.
Tatham, R. G. (F. B. Proctor), London.
Taunton, A. G. M. (V. T. Edmonds), London.
Taylor, A. (J. Blane), Blackpool.
Taylor, D. R. H. (A. E. Downing), London.
Taylor, P. M. (N. E. West), Littlehampton.
Temple, A. D. (E. V. G. Allicot), Wisbech.

* See also Certificates of Merit above.

MOTOR — FIRE — CONSEQUENTIAL LOSS

Thomas, M. L. (J. R. Morgan), London.
 Thorn, R. S. (D. D. Mathieson), London.
 Thorne, B. E. (B. L. Barber), London.
 Thornton, D. I. (W. S. Harrison), Dewsbury.
 Tovey, H. P. (R. W. Meacock), Newport, Mon.
 *Treadgold, S. W. (H. E. Williams), Oxford.
 Tree, N. (M. Walters), London.
 Trevor, M. (H. C. Rudolf), London.
 Twitchen, B. F. G. (B. C. Scurr), Alton.
 Tyabji, F. S. B. (F. Goldstein), London.

Underwood, W. G. (P. F. Granger), Nottingham.

Varnish, R. H. (C. L. Ellison), Birmingham.
 Vaughan, R. L. (H. J. Patience), London.
 Vercoc, P. N. (R. C. Pearson), London.
 Vesuna, S. M. (E. R. Funnell), London.
 Von Gebtsattel, (Miss) A. (P. G. Heslop), London.

Waddell, J. M. (C. H. Nathan), London.
 Waddicor, J. R. (D. Barlow), Bolton.
 Walker, T. (G. Hill), Sheffield.
 Walters, D. J. (E. R. Siddle), Taunton.
 Ward, (Miss) C. P. (T. B. Quail), Nottingham.
 Waters, B. W. (B. MacD. Hennell), London.
 Watson, D. T. U. (G. C. B. Gidley-Kitchin), London.
 Watson, J. K. (W. H. Bevan), London.
 Watt, I. L. (E. D. Davies), London.
 *Webb, A. C. (B. Keohane), Newport, Mon.
 Whatnoor, P. H. (L. H. Clark), London.
 Wheatley, A. R. R. (O. J. Lowe), Leigh.
 Wheeler, R. D. (L. C. W. Phillips), Oxford.

614 Candidates passed.

Whinney, F. J. G. (H. P. Patterson), London.
 White, A. (W. H. E. Dickinson), Altrincham.
 White, R. (J. M. Glaister), Carlisle.
 Whitehead, G. (G. M. Carrick), Newcastle upon Tyne.
 Whitehorn, P. (H. F. E. Stripp), London.
 Whitehouse, H. J. (E. Lord), Birmingham.
 Whitehouse, J. S. (G. St. C. Wycherley), Wolverhampton.
 Wiard, P. (F. Hiscocks), Liverpool.
 Wilcock, H. (H. McCreery), Manchester.
 Wilkinson, J. R. (W. A. Lamerton), London.
 Wilkinson, N. F. (W. G. Densem), London.
 Williamson, A. G. (E. D. Cox), London.
 Wilson, E. R. (A. E. Willmoth), Preston.
 Wilson, D. C. (S. J. Cowey), Sunderland.
 Wimpenny, D. G. (F. Crosland), Huddersfield.
 Wisely, I. W. (M. C. Cole), London.
 Woodall, J. A. (E. S. Thorn), London.
 Woodfield, (Miss) J. Z. (H. J. R. Ledsam), Birmingham.
 Woods, J. S. (E. A. Bland), Colchester.
 Woods, M. W. (J. D. Hodgson), Launceston.
 Woolhouse, T. H. L. (G. F. Davies), London.
 *Worth, B. L. (F. R. Coad), London.
 Wright, L. W. (N. W. Thirle), Lincoln.
 Wright, N. A. (G. G. Potier), London.
 Wright, P. E. (Sir H. M. Barton), London.
 Wrigley, T. J. B. (H. V. Barham), London.

Yates, P. C. (F. R. Waller), London.
 Young, P. D. (S. H. C. Wade), Stafford.
 Young, R. L. M. (W. Broad), London.

Zahid, A. M. (E. G. Evans), London.

621 Candidates failed.

PRELIMINARY EXAMINATION

Held on May 14th, 15th, 16th and 17th, 1957

Full List of Names of Successful Candidates

(In alphabetical order)

Abdullah, M., London.	Dillsworth, R. A., Manchester.	Oglesby, H., Taplow.
Ashraf, M., London.		
Bailey, P. J., Solihull.	Evans, A. C., Woking.	Paull, A. W., London.
Baker, P. D., Liverpool.	Haynes, M. F., Liverpool.	Ravenhill, J. F., Northwood.
Ball, W. F. N., Hale.	Haythornthwaite, D. C. M., Plymouth.	Rudge, S. B., Brighton.
Bartle, V. M., Camborne.		
Bruff, P. F. J., Ruislip.	Kanagasabai, A. S. I., London.	Sayers, J. H., London.
Chancellor, B. L., Birmingham.		Sills, C. D., Haverhill.
Charles, D. J. B., Reigate.	Landis, H. P., London.	Small, R. L., Liverpool.
Croce, M. R., Sevenoaks.		Steele-Perkins, R. De C., Exeter.
Dastoor, V. K., London.	McKie, R. A., Cheadle Hulme.	Thraves, A., Scarborough.
	Morarjee, R., London.	

28 Candidates passed.

99 Candidates failed.

* See also Certificates of Merit above.

Summary of Results

	<i>Final</i>	<i>Intermediate</i>	<i>Preliminary</i>	<i>Total</i>
Candidates Successful	455	614	28	1,097
Candidates Failed	521	621	99	1,241
Candidates Sat	976	1,235	127	2,338

JOHN FOORD & COMPANY
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THE SOCIETY APPROVES

THE momentous integration scheme between the three institutes of chartered accountants and The Society of Incorporated Accountants is approaching its final stages. To this point everything has gone according to plan. The members of the three institutes have already expressed their formal approval and, last week-end, came the announcement that the members of the Society had voted convincingly in favour of the scheme by 8,747 votes to 1,327. It might have been said that it is now all over bar the shouting were it not that such a phrase is entirely inappropriate to the dignified deliberations of the Privy Council - which has to agree to the necessary changes in the charters and bye-laws of the English and Scottish Institutes - and of the Governor and Privy Council of Northern Ireland and the Government of the Republic of Ireland, to which authorities the Irish Institute must submit the proposed alterations to its constitution. It is expected that these decisions will be announced later in the year and, if they are positive, the Society will thereafter call an extraordinary general meeting and put itself into liquidation.

The details of the scheme were first made known last Christmas so that it has taken the profession just over seven months to accept the principle of integration. The many arguments on both sides have been fully and fairly expressed and analysed and, in the testing times ahead, the lessons to be derived from them should be of value in avoiding or minimizing the problems which will arise. These are not likely to be so much problems of organization - for the secretariats of the four bodies have amply demonstrated their abilities in that direction - as of human adaptability. A vote may virtually extinguish the Society as a statutory body but the memory of the high reputation it has built up in its long history cannot and, indeed, must not be thus summarily dissolved. It should be cherished for the future good of the profession and the resolve of every incorporated accountant must be to ensure that the chartered body to which he will henceforward owe allegiance receives some portion of that inheritance.

For their part, the existing members of the chartered bodies should appreciate that their institutes will be enriched by the addition to their ranks of members bearing this fine tradition which has done so much to elevate accountancy to its present authoritative level. In keeping all this in mind, the difficult years of transition will certainly be made much easier if chartered and incorporated accountants alike realize - as we feel sure they will - that, having committed themselves, the future of the profession depends very much on the successful implementation of the integration scheme.

BANKRUPTCY LAW REFORM

THE present system of bankruptcy law is based on the Bankruptcy Act, 1883, which was replaced after thirty years by the Bankruptcy Act, 1914. Another fifty or so years have passed without any major change in the law, despite the social and economic changes in those years. In 1955, THE PRESIDENT OF THE BOARD OF TRADE appointed a committee of five to consider and report what amendments were desirable in the Bankruptcy Acts of 1914 and 1926, and in the Deeds of Arrangement Act, 1914. The chairman of the committee was JUDGE JOHN B. BLAGDEN, and one of its members was MR CHARLES E. M. EMMERSON, F.C.A. The report of the committee has now been published as a White Paper.¹

A recommendation of particular interest to accountants is that contained in paragraphs 31 and 32 in relation to the appointment of trustees in bankruptcy. Section 19 of the 1914 Act provides that the creditors may appoint some fit person to fill the office of trustee. The committee observes that by far the greater number of those appointed as trustees in bankruptcy are, in fact, members of one or other of the recognized accountancy associations, and, as such, are not only technically equipped for the duties of trustee but also come under the disciplinary jurisdiction of the society or association of which they are members. The committee adds that although there is much to be said for the open door, it endorses the views of those witnesses who consider that, to ensure efficiency in the administration of insolvent estates, all appointed trustees should possess professional qualifications. It therefore recommends that the words 'fit person' in the Act be followed by the words 'having such professional qualifications as may be prescribed'.

One of the minor recommendations of the committee is for a slight change in the manner of fixing the remuneration of trustees. It rejected suggestions that the remuneration should no longer be expressed as a percentage of the assets.

The committee expresses the view that the basic structure of the bankruptcy law, apart from that relating to discharge, is generally sound and

well suited to its purpose. The principal defect of the Bankruptcy Acts is that they have failed to provide a satisfactory and equitable method of dealing with the discharge of every bankrupt. There are probably between 30,000 and 40,000 undischarged bankrupts in the country, the majority of whom have that status for the reason only that they have never applied for their discharge. It is important, therefore, to amend the law so as to ensure that the number be reduced to such a figure as will make it possible for the official receivers to exercise effective supervision.

Only one in every four or five bankrupts apply for discharge, and when application is made it involves a substantial amount of expense, not only to the bankrupt but also to the official receiver. Curiously enough, it is the more honest type of bankrupt who does not apply, owing to ignorance of the procedure, lack of funds, or, more often, a desire to avoid further publicity. On the other hand, the more knowledgeable, and often dishonest, bankrupt makes an application only a few months after the conclusion of his public examination, in the knowledge of soon being freed of his disabilities.

The committee has therefore evolved a scheme for automatic discharge after two years from the date of the order of the Court concluding the public examination. This automatic discharge would apply only where no caveat had been entered against it by the Court. The Court would have power to enter the caveat either on its own motion or on the application of the official receiver, the trustee, or any creditor who has proved his debt and was present or represented at the conclusion of the public examination.

Application for a caveat would also be possible on the part of the official receiver or trustee after notice to the bankrupt, at any time during the two years. Once a caveat was entered, the bankrupt would remain undischarged until he obtained a discharge by application to the Court. On the other hand, if there were no caveat, the bankrupt would be entitled to apply for earlier discharge, without waiting two years. Existing undischarged bankrupts, when the new Act came into force, would be automatically discharged two years later, again subject to any caveat.

¹ Cmnd. 221, H.M.S.O., price 4s 6d net.

SURTAX DIRECTIONS CHANCELLOR'S UMBRELLA WITHDRAWN

A BRIEF written answer to a parliamentary question on August 1st, 1957, marked the end of the concession under which the Special Commissioners did not make surtax directions under Section 245 of the Income Tax Act, 1952, on trading companies which continue to distribute dividends at the same rate as before 1947. This concession, or Chancellor's umbrella as it is often referred to, was announced in June 1947, by the then Chancellor, MR HUGH DALTON, and was repeated by SIR STAFFORD CRIPPS in July 1948.

It will be remembered that in 1947 the Government was trying to encourage restraint in dividends. The Finance Act of that year introduced discriminatory rates of profits tax against profits which were distributed, and this discrimination has been made harsher as the years have gone by, notwithstanding powerful arguments against it, including the cogent arguments contained in the final report of the Royal Commission on the Taxation of Trading Profits and Income. The concession went some way to preserving some sort of logic in the general tax structure. A surtax direction is a penal imposition, it does not merely require the shareholders to pay surtax on what in the circumstances would be a reasonable distribution; once it has been established that a reasonable distribution has not been made, then the direction operates to charge surtax on the whole profit of the company, however unwise it might be to distribute that whole profit.

The CHANCELLOR, in his written answer, did not say why the concession was being withdrawn. He has said on a number of occasions that he was examining the profits tax structure and considering the recommendation of the Royal Commission that a flat rate be substituted for the present discriminatory rates. It may be that the withdrawal of the concession indicates that he has made up his mind to adopt the recommendation in his next Budget. There is certainly no logic in having two simultaneous penalties, one for distributing and one for not distributing.

However, even without a profits tax reform, the withdrawal of the concession is perhaps not

so black as might at first sight appear. In the first place, if the direction is appealed against, the Special Commissioners will still have to prove affirmatively that the distributions are unreasonably low after having regard to the current requirements of the business and to such other requirements as may be necessary or advisable for the maintenance and development of that business.

In the second place, the concession had already been much eroded by administrative action. SIR STAFFORD CRIPPS, when he confirmed the concession in 1948, was careful to add the following sentence:

'I must emphasize that this answer deals only with bona fide cases and will not apply where there are avoidance devices, such as the withdrawal of money from the company in the guise of capital.'

This somewhat vague statement does not constitute legislation, of course, and the assessing branch of the Special Commissioners has put its own interpretation on it, an interpretation which seems to have become stricter as that branch has overtaken its post-war arrears of work. Consequently the number of companies which have been allowed to enjoy the concession has been getting smaller, without any right of appeal on the ground that they are 'bona fide' cases, whatever that means.

The vagaries of the application of the concession have led many companies to consider carefully whether or not to seek a clearance from surtax direction, under Section 252 of the Income Tax Act, 1952. Many of them did take this step and are therefore immune from direction for past years. Unfortunately many acted on the principle of letting sleeping dogs lie and they may now have to suffer for their misplaced caution. It would have been a gracious gesture to preserve the concession, for what it was worth, in relation to years up to 1956-57, and perhaps this will yet be done. Meanwhile, the accountancy profession, and industry, will await the next Budget with even greater interest than usual, for a rationalization of profits tax can hardly be delayed much longer.

THE FINANCE ACT, 1957—I

ENTERTAINMENT TAX

THE Finance Bill received the Royal Assent on July 31st and became the Finance Act, 1957. Although the most spectacular and certainly the lengthiest part of it concerned the exemption from income tax and profits tax of the trading profits of overseas trade corporations, there were some significant changes in other fields, notably a complete recasting, as from May 4th, 1957, of the entertainment taxes.

There are now only two kinds of entertainments which attract entertainments duty; cinematograph shows and television shows; all the other impositions having been abolished. Moreover, the complicated schedule of duties for varying prices of admission has been dropped in favour of a simple provision that duty shall equal the excess of the admission price (excluding duty) over 11d. In other words, there is a 100 per cent tax on admissions, with an exemption for the first 11d.

The incidental use of a film show as an adjunct to a lecture or exhibition has given rise in the past to difficult problems as to whether duty is chargeable at all and on how much of the admission charge. The new Act cuts the Gordian knot by directing that no duty shall be chargeable in respect of an entertainment by reason of, the inclusion in it of a film or television show which is merely ancillary to a lecture or exhibition, or designed to give instruction or information relevant to the purposes of the lecture or exhibition (Section 1 (3)).

There is a rebate of one-third where a film or television show is included, in one auditorium, with other items which take up not less than one-quarter of the total time, excluding intervals. Section 1 (6) repeals, as from August 4th, 1957, the existing code of exemptions from entertainments duty but introduces the new code contained in the First Schedule to the Act. Exemptions may be divided broadly into three types; educational, charitable, and rural. A wholly educational entertainment is exempt, and the same applies to an entertainment provided by a non-profit-making body established and conducted for partly educational purposes. A non-profit-making body is defined as a body of persons (whether incorporated or not) which is not

established or conducted for profit. If two or more persons provide the entertainment, all must satisfy the condition.

Dealing now with exemptions on charitable, as distinct from educational, grounds, a non-profit-making body of a permanent character, established and conducted wholly for charitable purposes consisting in the provision of entertainments, is exempt from entertainment tax on entertainments provided by it. Exemption is also given where the net takings of an entertainment are devoted wholly to philanthropic or charitable purposes and one of two further conditions is complied with. The first of these alternative conditions is that the expenses do not amount to one-half of the gross takings. The second alternative condition is a composite one; the expenses, added to the duty which would otherwise be chargeable, must be less than nineteen-twentieths of the gross takings and also the entertainment must have been given either by a miners' welfare institute or by a body of persons of a permanent character established and conducted wholly or partly for philanthropic or charitable purposes.

For the purpose of the last-mentioned exemption, 'expenses' means the expenses incurred in connection with the entertainment by the person providing it, whether in respect of the production of the entertainment or any other matter, but excluding the duty, sums paid to charity under the Sunday Entertainments Act, 1932, and expenses met otherwise than out of the gross takings. 'Gross takings' means the sums received by the person providing the entertainment whether as payments for admission, for programmes, refreshments or the like, for rights of reproduction 'or for any other matter', but excluding a donation made towards the cost of the entertainment. 'Net takings' means the gross takings so far as not used to meet expenses.

Exemption is also given to an entertainment given in a borough, urban district or rural parish (as defined in the Local Government Act, 1933) or in their counterparts in Scotland, with a population of not more than 3,000, or having not more than 640 inhabitants to the square mile

(To be continued.)

SCIENTIFIC ESTIMATION OF DEPRECIATION

by KENNETH S. MOST, LL.B., A.C.A.

IN these times of high capital intensity, many businesses must examine the subject of depreciation to see whether it can be scientifically estimated. An airline provides a good example.

In the committee stage of the Air Corporations Bill, the Minister of Transport and Civil Aviation made the following statement on the depreciation of aircraft:

"The corporations [B.O.A.C. and B.E.A.] had not yet agreed with their auditors on a common policy for writing-off aircraft. He hoped that they would. What they were agreed that they wanted to do was to set a fixed term of years for this purpose rather than the complicated principle of writing off one-tenth or one-twentieth of an aircraft." (*The Times*, November 24th, 1956.)

The importance of this question appears from the amounts which the corporations expect to set aside during the next five years for the purpose of internal financing. The British Overseas Airways Corporation will require £47 million and will obtain £31 million from depreciation and obsolescence and £16 million from disposal of aircraft. The comparable figures for the British European Airways are £22½ million from depreciation and obsolescence, £3 million from disposal of aircraft and £750,000 from surplus on revenue account, a total of £26½ million. Relating these figures to estimated annual revenues during the period (rising from £42 million to £105 million for B.O.A.C. and from £21 million to £45 million for B.E.A.) the significance of depreciation becomes clear. Slight inaccuracy may mean the difference between annual profits and annual losses; a relatively small under-statement of depreciation may cause great harm five or ten years hence.

What is Depreciation?

The habit of regarding depreciation as a kind of loss in value which fixed assets experience over a period of years is still found in practice. It derives from the time when annual balance sheets were relied upon for ascertaining profits or losses, by comparing opening and closing capitals as adjusted for payments in and drawings out during the period. As Schmalenbach has pointed out¹, such balance sheets were prepared on a liquidation basis, which involved valuing all fixed assets at, or near to, current market prices. Although the

static concept of liquidation has long since been discarded in the preparation of annual accounts for going concerns, traces of it still linger on.

Depreciation is neither a loss nor an expense; it is a method of ascertaining an expense.

The type of expense to which it applies is designated 'capital expenditure'. The expression is by way of being a misnomer. Expenditure can be made out of capital or income, but it is to misplace the epithet if any expense is called 'capital' irrespective of its source. There is no law which says that fixed assets must be purchased out of capital; indeed, the quotation at the beginning of this article refers to capital expenditure which will be made partly out of income. However, it is established usage to call the purchase of fixed assets 'capital expenditure'; the point is only made to prevent an ambiguity from arising later. This ambiguity may lead to the assumption that one of the objects of depreciation is to provide funds for the purchase of other fixed assets.

In principle, capital expenditure differs from revenue expense in that it requires allocation over a number of years. This is a better distinction than that based on the fixed asset-current asset dichotomy. If a drum of lubricating oil will serve for two or three years, the amount chargeable to expense yearly may be ascertained by measuring the contents of the drum at the end of each year, or else by allocating one-half or one-third of its cost to each year; this is a borderline case. Another would be if a machine tool were specially purchased for one production run to be completed within the current year. To eliminate the incidence of purely fortuitous fluctuations it is customary to disregard market value of the asset at the end of any particular year.

Depreciation is often considered in conjunction with obsolescence, of which there are two kinds. Sudden obsolescence, following a new invention, for example, is correctly dealt with as something totally distinct from depreciation. It is unforeseeable, and for this reason it cannot be taken into account when fixing depreciation rates. Where it is likely, prudent policy will provide for it by the creation of reserves. Gradual obsolescence, on the other hand, is akin to depreciation proper. An airline must assume that its aircraft will be obsolete ten years from now, irrespective of revolutionary innovations, merely because travellers are continually being familiarized with new

¹*Dynamische Bilanz*, by Professor Eugen Schmalenbach, Westdeutscher Verlag, Cologne.

standards of air comfort to the point where they demand them. This type of obsolescence resembles usure, or the operation of the elements, and can be taken into account in fixing rates of depreciation.

In this discussion we can assume that loss of or damage to an aircraft through accident is fully insured against, and that the elements have no effect independently of usure. Depreciation is the method used to ascertain the expense of utilizing the aircraft and the parts of this expense applicable to the individual years. We have, then, *total* depreciation and *annual* depreciation.

Total Depreciation and Annual Depreciation

The original cost of the aircraft, less its value on disposal, is the amount to be written-off, the total depreciation. The formula for annual depreciation is:

$$\text{Annual depreciation} = \frac{\text{Original cost} - \text{residual value}}{\text{Useful life}}$$

This formula does not express the fact that annual depreciation need not be equal, but may increase, decrease or vary from year to year.

The Minister of Transport and Civil Aviation implied that there was a fundamental difference between writing-off over a fixed term of years and 'writing off one-tenth of an aircraft'. This is not so. They are both depreciation on a time basis, expressed in different words. To reduce the original value of an aircraft costing £1 million to £50,000 in ten years, it may be decided to write off £95,000 per annum, or it may be decided to write off 25 per cent of the reducing balance every year. The amounts of annual depreciation, however, would differ tremendously, except in the fourth and fifth years.

Original Cost

The difficulties underlying a scientific estimation of depreciation arise from the unknown factors involved. Useful life and residual value are, at best, inspired guesses, whereas original cost is a relative description which may refer to a known exact amount, and may not.

Let us assume, for example, that B.E.A.'s Elizabethans, which are to be sold this summer, had been modernized by replacing their old piston engines with new turbo-propeller ones. In this situation, original cost is a compound of the written-down value of the old aircraft and the cost of acquiring and installing the new engines.

A more usual complication is the cost of maintenance. It is not at all certain that maintenance is chargeable to expense in the year in which it is carried out. Indeed, just as usure is

averaged over a number of years in the form of depreciation, there is a strong argument for averaging maintenance expenditure in the same way. The validity of this argument increases when it is applied to aircraft, which require comprehensive overhauling from time to time.

Assuming that twenty Vickers Viscounts were put into operation by B.E.A. in January 1957, of which seventeen will fall due for a thorough overhaul during the last quarter of 1958 and three during January 1959, it does not make sense that this accident of time should have an effect on the profits of the years 1957, 1958 and 1959 out of all proportion to the actual maintenance accrued due during those years. The expense will be incurred as a consequence of flying carried out in 1957 and 1958, and, assuming uniformity of utilization, these two years should be charged equally with the whole cost.

It is accepted that a satisfactory method of allocating maintenance expenditure to the years to which it applies is to compute estimated maintenance expense, divide it by the number of years during which it will accrue, and charge the result each year to the maintenance expense account, with a corresponding credit to a maintenance equalization account. Actual maintenance expenditure is then debited to the maintenance equalization account as and when it occurs.

Another possibility is to debit all maintenance expenditure to the fixed asset account as an addition to the original cost of the aircraft, and to include the annual charge for maintenance as an element in calculating depreciation. It has the advantage of replacing two essentially hazardous calculations by one; the use of sub-accounts can keep separate the cost of the aircraft, the annual charges for depreciation and maintenance and the actual maintenance expenses.

The latter treatment would give us a slightly different formula for total depreciation, viz:

$$\text{Total depreciation} = \text{Original cost} + \text{maintenance cost} - \text{residual value}$$

Residual Value

Residual value is generally regarded as the amount which can be obtained for a fixed asset on sale at the end of its useful life. This disposal value may be considerable if the asset can be of use elsewhere, or negligible if it can only be sold for scrap. Disposal of aircraft may be undertaken by an international airline long before they are fully used-out, as a matter of commercial policy to meet competition, or for reasons of economy, where new aircraft are cheaper to operate. On the other hand, residual value may be a pure fiction

as where a holding company airline transfers aircraft to its subsidiary at an 'agreed value' which has no relation to current market value but is based upon earning capacity in the hands of the subsidiary.

It follows that arbitrariness and discretion are actors to be guarded against in estimating residual value; they must be rigorously eliminated for the scientific estimation of depreciation. We are aided by the modern practice of long-term budgeting. An airline will set up, side by side with its quarterly and yearly budgets, a five- or ten-years' budget, not in respect of income and expense as they appear in the profit and loss account, but to estimate the future flow of funds. The long-term budget shows how money will come in, from income, loans and contributed capital, and how it will go out in the form of expenses (including capital expenditure), interest, dividends and so on. A necessary basis for this type of budget is the tentative fixing of commercial policy for the future period. In effect, an airline may decide today, at what future date it will dispose of aircraft not yet acquired. This planning makes it possible to estimate residual value at a figure which will be realistic in the light of present anticipations.

Many things may happen to render these predictions inaccurate. The bottom may fall out of the used aircraft market. National or international crises may render plans impossible of fulfilment. Even inflation may require the airline's plans to be completely revised. Whatever the reason, it can be compared to sudden obsolescence in that it cannot be foreseen, and therefore has no place in depreciation calculations. On the contrary, the accurate ascertainment of depreciation will then prove of utmost value to the airline, by facilitating marginal costing and by making available a series of profit and loss accounts which can be relied upon as a basis for financial decisions.

Useful Life

Long-term budgets provide us with the key for estimating useful life. The useful life of a fixed asset is not the period during which it *can* be kept in service; it is the period during which it *will* be used. One of the consequences of this changed attitude is the increasing preference for the 'straight-line' method of depreciation, because the reducing-balance method is seen as particularly suitable for keeping the asset on the books for as long as possible, even at a nominal value. The reducing-balance method is still valid, however, where the value of the fixed asset to the successive years is a diminishing one.

Having ascertained residual value and useful life, we are in a position to consider how annual depreciation is to be arrived at. Before doing so, a further problem awaits our attention.

Historical Cost v. Replacement Cost

When considering total depreciation, the question may arise, whether inflationary and other factors affecting replacement cost are to be taken into account. Shall total depreciation equal replacement cost less residual value?

The argument only concerns us here if the difference between depreciation calculated on a replacement cost basis and depreciation on a historical cost basis can be regarded as an expense, chargeable to the profit and loss account before the ascertainment of profit.

The assumption underlying the replacement cost argument is that business capital is formed solely through retention of business profits. The accountant cannot accept this. He sees capital as composed of outside contributions and loans, as well as retained profits. In calculating depreciation he is not primarily concerned with the sources from which funds will be obtained for the replacement of fixed assets. The availability of retained profits for this purpose, in the form of liquid assets, is a purely fortuitious circumstance and has no inherent advantage over the use of contributed or loan capital. It depends upon the state of the stock-market, current business conditions, the incidence of taxation, interest rates, profit margins, the credit status of the particular business. In any case, it is the public who pays.

For this reason the accountant sees contributed capital as a saving of income, regarding the economy as a whole, just as much as the retention of business profits. However, he must approach the whole question from a rather different standpoint, which may be described as follows.

Let us say that the shareholders of a company have contributed £100,000 to it in the form of share capital. If the company can be said to have an obligation to them during its lifetime, it is to keep this £100,000 intact, or alternatively, to let them know exactly how much of it is being returned to them in the form of dividends or other payments.

It is only as incidental to the fulfilment of this obligation that a company keeps its assets intact, or maintains itself in a certain operating condition, or continues to be an organic whole. It has no obligation to replace any specific assets. To apply the argument to the example chosen, B.E.A. is not obliged to replace its Vickers Viscounts which cost, let us say, £500,000 each, with other Vickers

Viscounts which may then cost £600,000 each. If it so desires, it can replace them with other types of aircraft costing £1 million. This is a question of financial and commercial policy with which the accountant is not concerned in calculating depreciation for the accurate ascertainment of profit, no matter how keenly interested he is as an executive of the corporation, or a practical man of affairs.

Ascertaining Annual Depreciation

To return to the scientific estimation of annual depreciation: we have seen that our aim is to find, for each year, the exact amount of capital expenditure applicable against the income of that year, and not to set aside money for the purchase of new fixed assets, nor to reduce original cost to current market value at the date of each balance sheet. We have recognized the effects of usure, maintenance and gradual obsolescence and the importance of a conscientious long-term budget for arriving at total depreciation. The problem is, to allocate it over the individual years.

The first choice facing the accountant is between equal depreciation (the 'straight-line' method) and variable depreciation. If he chooses the latter, he is not confined to the 'reducing-balance' method, but may prefer increasing depreciation or even fluctuating depreciation.

To take the last-named first: the most common example of fluctuating depreciation is that used where the degree of utilization of fixed assets varies from year to year. While total depreciation remains expressed as a term of years, it may be divided up, not on a time-basis, but according to some alternative standard of measure, e.g. flying-hours, miles flown or passenger miles flown. This will involve unequal charges for depreciation from year to year, but if this inequality exists, and is susceptible to measurement, then depreciation calculations should take it into account.

Aircraft are not usually utilized in the same way, even where of the same type. Higher rates of depreciation may be required for those used on short-stage routes than for those which fly longer stages, because of the more frequent taking-off and landing. The type of calculation which is based on distance or time flown is not satisfactory for this purpose.

It should be stated that aircraft and other fixed assets which represent, individually, a high ratio of capital investment to income, require individual and not collective depreciation. In this way, differences of degree of utilization can be accommodated.

Where uniformity of utilization is postulated,

the 'straight-line' method is favoured in England, whereas the 'reducing-balance' method is more common abroad. Increasing depreciation is virtually non-existent; it is sometimes advocated, however, to give effect to the interest factor.

Interest as an Element of Depreciation

Interest as an element of depreciation must be clearly distinguished from interest on capital as an element of cost. In depreciation, interest is included to compensate early years in respect of additional income of later years which is directly attributable to increased liquidity resulting from depreciation charges.

The relation between depreciation and income is clear; depreciation is a charge against income before the ascertainment of profit. Where there is no ascertainment of profit, there is no need for depreciation. A charitable organization which purchases a typewriter out of budgeted income will charge the whole cost as an expense of the year of acquisition. The fact that the typewriter will benefit future years is irrelevant; its cost does not fall to be set off against any income other than that of the current year.

Annual depreciation results in a gradual freeing of money tied up in fixed assets, with which additional income is earned. Because of this, it is suggested by some writers that a gradually increasing rate of annual depreciation is appropriate. Total depreciation remaining the same, it is divided into amounts, each of which is greater than the preceding amount by one year's interest at the chosen rate on the previous year's depreciation.

Taking this into account, it will be seen that the 'straight-line' method is actually diminishing depreciation, and the 'reducing-balance' method even more sharply diminishing than it appears to be on the surface.

If total depreciation is correctly calculated, the effect of choosing the wrong basis for annual depreciation will be self-correcting in the long run. Individual years will be charged disproportionately, but the fixed assets will be fully written-down at the end of their useful lives. However, under-estimated annual depreciation can have serious effects, such as the distribution of unearned profits, or over-investment in expansion. The consequences of overstating depreciation are less harmful, and for this reason a degree of caution can be allowed to effect the choice of depreciation rates, particularly in favour of over-charging the earlier years as compared with the later ones; in this, as in all things, moderation should be the rule.

ROMAN ACCOUNTING

by R. ROBERT, A.C.I.S.

'Fortune, in the account book of every mortal, makes out two pages.'

PLINY THE ELDER.

THE great Roman author, Pliny the Elder, remarked that without papyrus, which was the main writing material of Rome from the sixth century B.C. to the fourth century A.D., the human race would have neither culture nor history. Though he was probably overstating his case it is certainly true that without the papyrological evidence our knowledge of Roman accounting would be very slight. Most of the papyri on which modern scholars have drawn came from Upper Egypt, where climatic conditions were favourable to their preservation. Tens of thousands have survived the ravages of time, and among them are numerous accounts, both of a private and a public nature.

This important fact, apparently unknown to many writers who have speculated on the nature of Roman accounting, has led to the formulation of some entirely new conclusions. No longer is it possible to believe that the Roman methods were a near approach to our own, or that they had anticipated many of the advanced techniques on which accountants pride themselves today. The Greek and Latin papyri from the Roman province of Egypt make it clear that they had not even arrived at the basic concepts of 'debit' and 'credit'.

Suggestion of Double Entry

In Pliny's apophthegm 'Fortune makes out two pages' there is, indeed, the suggestion, on which writers have been quick to seize, of double entry. But in actual practice the 'bilateral form' seems rarely to have been achieved by the book-keepers of antiquity.

Only fleeting glimpses of it are to be caught as, for example, in a unique account, kept by the manager of an estate at Karanis in the Fayum, in which receipts and payments are aligned vertically in separate columns, and in which many of the entries are provided with a 'narration' and are individually 'balanced'. A full account of this papyrus roll, dating back to A.D. 191, is to be found in an authoritative essay by G. E. M. de Ste Croix in the recently-published *Studies in the History of Accounting*.

But the Karanis papyrus, representing a peak point in ancient accounting, was exceptional. It cannot be regarded as providing proof that the

Romans had a highly-developed accounting system, comparable to those of the modern world: least of all that they were acquainted with the principles of double entry book-keeping. All such assumptions, advanced from time to time, must, in the light of the papyri, be considered as erroneous. Most of the accounts which have come down to us are in the form of narratives or records, supplemented in some cases by inventories. Never at any period in Roman history does there appear to have existed any system of integrated and inter-locking accounts, whether based on double or single entry.

Still one more illusion remains to be shattered before we go on to find out the real truth about the Roman method of keeping accounts. They knew nothing of properly drawn up balance sheets or of profit and loss accounts, and lamentably failed in distinguishing between income and capital. Account keeping had one primary purpose: to obviate theft, embezzlement, fraudulent conversion, and other avoidable losses. Masters had to make sure that they were not being cheated by their slaves, and business men by their associates.

Nevertheless, it has to be remembered that the Roman economic system was less advanced than ours. They had their 'joint-stock companies', their 'scientifically managed' farms, and their State apparatus but, on the whole, they had no great need for elaborate accounts. Their system was one well-adapted to their own particular needs.

Legal and Literary Evidence

The evidence for the forms that system took is to be found mainly in sources of a legal and literary nature. From them it becomes clear that the keeping of accounts was one of the many Roman virtues. Moritz Voigt, who published a work in 1887 for long regarded as standard, believed that *all* Roman citizens kept accounts. But such perfection seems unlikely.

Illuminating references to account-keeping are to be found scattered through the speeches of Cicero, greatest of the Roman orators. Private citizens of substance, with wealth to conserve, undoubtedly kept accounts, and from one particular oration, made in 77 B.C., it is obvious that they were of two kinds. The *adversaria* were memoranda or waste-books, rough records analogous to modern day-books. They might be

written on waxed tablets or on parchment, but usually on papyrus rolls. The *tabulae* were a more permanent form of account in which money transactions, income and expenditure, were recorded and which would be produced, if occasion arose, as evidence in law suits and trials.

Memoranda, it is clear from Cicero, had not the same weight or authority with the Courts as 'proper accounts'. The former were written up hastily, and served their purpose for one month only, at the end of which period they were expunged. The *tabulae* were the final, definitive records which it was intended should be kept 'forever'. One other assumption which may reasonably be made from the same speech (in defence of Roscius the actor) is that the Roman business man was in the habit of having his permanent account book written up, from the *adversaria*, at monthly intervals.

Whilst it is not an established fact that heads of families were obliged by law to keep accounts, the *argentarii* or bankers were undoubtedly obliged to do so, and to produce their books in legal proceedings whenever required. Other men, such as landowners, guardians, trustees, and money-lenders, would also tend in their own interests to be diligent in their account keeping.

The keeping of accurate records in regard to incomings and outgoings, both in money and kind, and the preparation of inventories of properties, were other features of Roman accounting. A man might well remain in perpetual ignorance of the exact sources of his profits, but he was usually able to tell whether his total assets were diminishing or increasing.

Narrative Form

The following is an example (*circa* 84 B.C.) of yet another kind of account: the reckoning of an official named Verres for moneys received and expended by him at a time when he was attached to the Consul in Gaul. This document, read out and ridiculed by Cicero, is certainly a remarkable one, for it provides the Roman State with nothing more than bare bones.

'I received,' it reads, '2,235,417 sesterces. I spent on army pay, corn, the legates, the proquaestor, and the praetorian cohort, 1,635,417 sesterces. At Arminium I left 600,000 sesterces.' (Caesar's *Verrines*.)

'Is this rendering accounts?' thunders Cicero. 'What impertinence! What audacity! Whoever heard of accounts being rendered in this fashion?'

Apart from the cryptic brevity of the account,

it was totally unsupported by 'vouchers', and who shall say in these circumstances that the indignation was unjustified? Yet the account is worth a second glance, for it illustrates, in a nutshell, the form in which all Roman accounts were stated, i.e. in narrative. Debits and credits, cash columns (and, of course, Arabic numerals), were still far off in the future.

After the second century A.D., references in Roman literature to book-keeping become sparser. The old and praiseworthy custom of keeping careful and exact accounts seems to have been gradually abandoned. By the fifth century A.D., it had ceased to be expedient to keep accounts. Taxation was increasing, and there was a natural reluctance to divulge property and resources.

Tax evasion, during the time of the Empire, was widespread, and it was only the bankers who, making a virtue of necessity, continued to keep strict accounts.

Roman Cheques?

The use of documentary transfers of credit, or of cheques, is another question, often debated, which may be answered with more certainty now that a study has been made of the papyrological evidence. Two thousand years ago, the transport of precious metal, or of coin, over great distances was an adventure; and every effort must have been made to minimize such journeys and all their attendant risks.

The assignment of debts was a principle well understood in ancient Rome, and we know that State warrants were often issued enabling officials, remote from the capital, to utilize tax-money, collected and held by them, for the payment of local expenses. Also clearly established is the fact that persons who had deposited money with bankers not infrequently gave instructions in writing for sums standing to their credit to be transferred to third parties.

Such transactions involved the use of documents which may not improperly be described as 'cheques', though they differed from their modern descendants in at least one important respect: they had not to be endorsed and were not 'negotiable'. The useful device of the negotiable instrument, recognized by statute or mercantile usage, was not a Roman invention, but that of a much later age.

However, it is only right that acknowledgments should be made where justly due. Bankers and clients, in the Eternal City, were familiar with cheques, though to what extent they were used it is difficult to say.

TRAINING FOR THE PROFESSION—III

by W. E. PARKER, C.B.E., F.C.A.

Responsibilities and Obligations of the Principal

(73) The obligations and responsibilities which principals undertake are indeed weighty and serious. In accepting articled clerks, principals are choosing on behalf of the Institute its future members. In supervising the training of their articled clerks they are doing so, not merely for their own satisfaction or advantage or for the articled clerk's benefit, but on behalf and in the interests of the Institute. In presenting the candidates for admission to membership they are fulfilling the obligation of the Institute to ensure that the quality of its membership is maintained. No conscientious member could ignore these responsibilities or discharge them lightly: they assume the greater importance because of the reliance placed on practical competence and, at the same time, the difficulties of testing practical competence by means of a written examination.

'Whilst the Council readily undertakes the great responsibility of ensuring the maintenance of the high standards of the Institute and the fundamental basis on which those standards have been built up, it is the responsibility of each member who takes a clerk under articles to ensure that both he and his articled clerk do their utmost to secure the same end, so that when the clerk has passed the Final examination the principal will have no hesitation in certifying that he is a fit and proper person to be admitted to membership.' (Council statement of February 1948.)

(74) If the obligations of principals to the Institute are heavy, their obligations to their articled clerks are hardly less so. In large measure the future professional life of the articled clerk and his progress in it lie in the hands of his principal and depend upon the professional upbringing which the principal provides. (I have used the term 'upbringing' deliberately because I believe that the relationship in the professional field between principal and articled clerk should be akin to that in the domestic field between father and son.)

A Recipe for Principals

(75) As an aid to meeting these obligations I would offer principals the following recipe.

- (1) *Do not accept an applicant into articles unless*
 - (a) *from your knowledge of his background and school record and your impressions from interviewing him personally you can form the opinion that he is likely to become in due course a credit to the Institute and is now sufficiently mature in character, mind and education to start his professional training;*
 - (b) *you are quite satisfied that your practice provides a suitable training ground for a prospective*

chartered accountant, and that you and your partners and staff will be able and willing to give proper attention to that training;

- (c) *you yourself have the time, and are prepared, to establish and maintain a personal relationship with him in the office.*

(76) The question of the suitability of one's practice does not appeal to me as being quite as difficult as it seems. No two practices are alike in the experience they can yield; but no two chartered accountants are alike in the experience they possess or in the competence with which they carry out this or that branch of the profession's work. I do not think it is either desirable or feasible to aim at turning out chartered accountants as a sort of standard product. What I believe has fundamentally to be instilled into articled clerks through their practical work is something less specific than competence in this and that particular aspect of the profession's work; rather it is a method of approach, an attitude of mind, a process of thought and a mode of practical application. This is difficult to define but easy to recognize when one sees the chartered accountant tackling a problem in company with people of other professions and occupations. For lack of a better term I would call it the chartered accountant's 'basic skill', which equips him to 'do the work of his profession' because he can bring it to bear on any aspect of the profession's work whether previously familiar to him or not. Without that 'basic skill' few of us in today's complex conditions could hope to be successful 'all-rounders'. On that view of the fundamental object of the practical training under articles, the question which the prospective principal has to ask himself is not so much whether his practice is sufficiently varied to provide experience and produce competence in most aspects of the profession's work but whether the quality (as distinct from the variety) of the experience which his practice provides is such as will enable an articled clerk to acquire the basic professional skill.

(77) As to the personal relationship between principal and articled clerk, I must admit that I have never felt happy about the interpretations which might be placed on the Council's recommendation of August 1946, designed to meet the case of 'some of the more senior members of the larger firms' who might be so heavily committed in various ways as to 'find it impossible to supervise directly the work on which his articled clerk is engaged'. The recommendation was:

'Where the principal is unable to give personal attention to the articled clerk, he should ensure that the clerk is placed under the care of a partner or a senior member of the staff, preferably a member of the Institute.'

I can well understand that in an office with a big staff

The concluding part of an address delivered on July 12th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

and a large number of partners, the arrangements for staff management and allocation of work may need to be centralized in the hands of one partner or of a particular manager; and I would think it essential in any case that the training of articled clerks in any one office should be a matter of team-work in which partners, managers and staff all collaborate. But I cannot feel that the special personal relationship and understanding which in my view should exist between the articled clerk and his principal is one which the latter can properly delegate to someone else. Action arising out of that relationship may well be capable of such delegation but I think that the relationship itself must be created and sustained by the principal. To do this he must make himself reasonably accessible to the articled clerk, must keep himself informed of the clerk's progress and problems both at the office and in his home work, and must be prepared to intervene, when necessary, with those to whom general staff responsibilities have been delegated. Unless the principal is prepared to do at least this much himself then with great respect I do doubt whether he should take an articled clerk.

- (2) *Before signing the articles, discuss the terms of the deed of articles with the candidate and make sure that he fully understands his position, what he may expect and what will be expected of him.*

(78) This talk will provide the opportunity to bring home to the candidate in particular the fact that he will no longer be treated as a schoolboy. He is now starting to build his own professional career and he will be expected to stand on his own feet and to take the initiative in seeking opportunities to learn his profession and in making the most of the opportunities which are available to those who seek them. Make it clear to him that the responsibility for passing the Institute's examinations is primarily his, and it is for him to decide, in consultation (if he wishes) with his principal, what form of coaching he will take. His principal's primary responsibility will be to provide him with the practical experience he will need not merely to illuminate his theoretical studies but to make him, by the time he has passed the examinations, a fit and proper person to be admitted to membership of the Institute. Warn the candidate that, at least in the early stages, a good deal of his work may be monotonous and repetitive. He may think this of little help towards the passing of the examinations. Very likely so; but it will represent an important part of his practical training. He will not be a good chartered accountant (whatever he may be as an examinee) unless he learns to do work of this kind without losing patience, concentration and alertness. Later he will look back and wish that he could once more have some lengthy spells of peaceful ticking and vouching!

- (3) *From the outset encourage the articled clerk to keep personal contact with you and to bring you his problems. Encourage him also to ask questions and*

seek guidance from the colleagues with whom he is working.

(79) Since the office is not run exclusively for his benefit, he must not expect to have access to his principal at will or always to receive adequate instruction and explanations from his colleagues on the job. But even the busiest principals can be seen by appointment, and even the busiest colleagues will find an enthusiastic junior well worth instructing and helping.

- (4) *While in principle leaving the initiative to the articled clerk (it is all-important that a prospective chartered accountant should not expect or come to be spoon-fed), nevertheless make sure that he is adequately exercising that initiative.*

(80) If he does not come and discuss his progress with you at reasonable intervals, prod him to do so. I think a newly articled clerk ought to see his principal, at least for a few minutes, very frequently during the first two or three months. Thereafter, depending on the individual and on the way he is shaping, the intervals may become less regular. Keep yourself informed by the staff with whom he is working of the progress he is making. Make a practice also of finding out from his coaches how his theoretical studies are going. In both cases a regular system of reporting has much to commend it.

- (5) *Make sure that your staff appreciate that they share in the responsibility for the training of the articled clerks; and see to it that, so far as possible, articled clerks are assigned, at least in the early stages, to work with seniors who have shown themselves to be good at training juniors, particularly beginners.*

(81) A good start in the office makes all the difference. The first impact of working life on a young man can be a formidable experience and first impressions may have a quite disproportionate influence on his whole approach and outlook. The beginner must be made to feel 'at home' straight away and to feel that he has entered a professional 'family' of which the other members are all anxious to help him and bring him on. The articled clerk who has been given a good start in this way will quickly find his feet, lose any shyness or inhibitions about asking questions and seeking guidance and begin with increasing assurance to make, and make the most of, his opportunities.

- (6) *Encourage the newly articled clerk to lose no time (a) in beginning his home work, and (b) in making contact with his students' society.*

(82) A good start on theoretical study is equally important. There is really no time to lose and the habit of combining office work and home work is easiest acquired if both are started together. The temptation for the new-comer to take a few weeks or a month or two to 'settle down' in the office before beginning private study is dangerous and can be fatal. Moreover, the quicker that progress can be

made in theoretical study, the sooner the practical experience in the office will begin to yield its full benefits. It is important that within a matter of weeks the interaction of theoretical study and practical work upon one another should begin to be recognized and appreciated.

(83) I have already referred to the cultural function of the students' societies. Of parallel importance is the part these societies take in specialized theoretical instruction, for example by providing lectures and courses on subjects in the examination syllabus. I am very conscious of the help which I received from my students' society throughout my own articles and particularly during their early stages. The value of the students' societies was emphasized in the Council's statement of February 1948 which included, among others, the following recommendation.

'Principals should encourage their articled clerks to take a real interest in all the activities of their students' societies and in all courses of lectures which may be arranged in the area, e.g. by the local joint committee and the students' society. . . .'

In December 1948 when the Institute received its supplemental Royal Charter the Council, in exercise of its powers under the new bye-laws, prescribed for inclusion in all articles (subject to its discretion in individual cases) certain compulsory clauses which among other things require the new articled clerk to become a member of a students' society and the principal to pay the entrance fee and subscription. These clauses are:

Covenants by or for the articled clerk

'That so soon as possible after the commencement of his service under articles the articled clerk will become a member of the local chartered accountant students' society or (where there is no local society) the chartered accountant students' society most convenient to him.'

'That the principal shall have the right to ask for reports relating to the articled clerk from the appropriate chartered accountant students' society and from any tutors with whom the articled clerk may take a course of study.'

Covenants by the principal

'That he will allow the articled clerk reasonable leave for attendance at lectures and students' society meetings and will afford him facilities for study or for obtaining theoretical instruction.'

'That he will allow the articled clerk a period of leave for not less than one month for full-time study prior to each occasion on which the articled clerk presents himself for an examination held by the Institute.'

'That he will pay to the students' society of which the articled clerk becomes a member the articled clerk's entrance fee and annual subscription.'

(7) *Be mindful of the necessity, emphasized in the Council's recommendation of February 1948, to see that your articled clerk's work in the office is properly planned.*

(84) This obligation of the principal is at once the most important and the most difficult to meet. It is difficult because the practitioner is not a free agent in deciding the nature and timing of work to be done: in the main that is dictated by the needs of his clients. There is also the problem in the earlier stages that the suitability for the articled clerk of particular work at a particular time has to be weighed against the suitability as 'tutors' of the staff whom the articled clerk would be assigned to assist on that work. Within these inevitable limitations, however, planning can still be effective: if there is not adequate scope for it, then the practice is not a suitable one for articled clerks. As I see it, the pattern to be aimed at should be one which provides

- (a) initially a sound grounding in elementary principles;
- (b) as much variety in type of work and in professional colleagues as the practice will permit - variety in both of these two respects is of great value in stimulating and preserving interest, quite apart from the breadth of experience it provides;
- (c) a suitable progression, leading to the early and increasing delegation of responsibility.

(85) I stress very much the value of delegating responsibility to articled clerks as soon as, if not a little before, they are ready for it. Even the smallest bit of work explained to the articled clerk and then given to him to do *on his own* will give him far greater interest and benefit than the same piece of work done 'double-handed' with a more senior colleague. It has been said often enough, and truly, that 'you don't begin to learn until you are left on your own to find out how little you know'; and, when you are given a job to do on your own, time runs away quite alarmingly with the hands of the clock. Where responsibility cannot be delegated (or at any rate not much), every effort should be made to let articled clerks see the conclusion of the work with which they have been assisting.

(86) Variety should be considered not only from the angle of maintaining the interest of the articled clerk but also from the standpoint of developing his familiarity with different aspects of the profession's work. I have indicated that I believe the basic professional skill can be acquired in a practice which does not embrace many different types of work. But I think it is still very much a responsibility of the principal to give his articled clerks the widest training of which his practice is capable. On the whole I am not in favour of principals going to the length of suggesting transfers of articles to other firms in order that articled clerks may meet types of work not undertaken by their existing principals. Such transfers would disrupt the personal relationship between principal and articled clerk by which I set so much store. I am inclined, however, to favour the spending of a few months in a sizeable industrial concern by articled clerks whose principals deal only with com-

paratively small clients. In the larger practices on the other hand I doubt whether, on balance, a period in industry during articles is worth while. With the increasing use of accounting control by management and the corresponding scope for reliance on that control for audit purposes, the conduct of audits of industrial concerns now involves more and more the study of the systems of cost and management accounting which are actually in use; and in these studies there are good opportunities for articled clerks to gain at first hand at least an introduction to management accounting in practice.

(8) *Intervene as little as possible in the articled clerk's theoretical studies, but take a close 'paternal' interest in their progress. Try and make sure that he is keeping the right balance and emphasis in his studies and, above all, that his methods of study are sound.*

(87) 'Intervene as little as possible' because, to repeat, it is so exceedingly important as part of the process of professional adolescence that the articled clerk should feel the responsibility for arranging his home work and study resting entirely on his own shoulders. But of course intervention by the principal cannot be avoided if the home work is not going as it should. The nature of the intervention will then be governed by the cause of the trouble and the needs of the individual. It may be that some particular subject is causing special difficulty; if so, the principal can probably help either by giving, or arranging for one of his staff to give, some personal tuition or by re-arranging the articled clerk's work in the office so as to bring him in closer contact with the practical aspects of the subject that is defeating him. Or it may be that the trouble is just idleness. In that case a different remedy has to be applied; but, if that remedy has to take the form of making the articled clerk do his home work under supervision in the office, then in my view it is a confession of failure in one important aspect of his training to become a chartered accountant.

(88) The question of keeping a proper balance and emphasis is usually another aspect of the problem of the difficult subject. The particular subjects which present special difficulty will vary between one individual and another. Where, however, a particular subject does present special difficulty to a particular individual there is always a danger that he may spend quite disproportionate time and effort in struggling with it unprofitably (I speak with the bitter recollection of my own excessive struggles with the law and practice of bankruptcy). Here wise guidance from the principal can be invaluable; but the principal may not become aware of the problem unless he is on such terms with his articled clerk as will lead the latter to consult him. The earning of satisfactory marks in a correspondence course is not of itself any indication that the student is using precious time to the best advantage.

(89) Adoption of the right methods of study makes

all the difference when it comes to facing the examiners. Wrong methods will not necessarily be revealed by the results of a correspondence course. Such results may cloak a quite unprofitable expenditure of time and effort and may fail to disclose the fundamental weaknesses which find their reflection in an inability to answer examination questions without textbooks at the elbow. There are many golden rules for studying. I would like to mention three specially.

- (a) Study as if in preparation for teaching others.
- (b) Study conclusions first; afterwards the processes by which they are reached.
- (c) Discover the gaps in your knowledge or technique by attempting *written* answers to questions.

(90) In explanation of these three rules I would comment that:

- (a) You do not understand a thing properly until you can explain it to somebody else; and the mental process involved in framing an explanation in your own words assists the faculty both of understanding and of memory.
- (b) Until you know your objective, you cannot expect readily to appreciate the significance of the steps or reasoning leading to it. (For example, the study of book-keeping should begin with consideration of a balance sheet and profit and loss account, not of the books of prime entry.)
- (c) The most wasteful and least effective method of revision is simply to reread text which has already been studied. It all seems comfortingly familiar. Much time is spent in discovering what you already know. But try instead to work or rework examples or questions without the book and you will soon find out what you have missed or forgotten. Even the things you think you know become elusive when you try and put them down on paper. In my belief, throughout accountancy training, for much the same reason that more time is given to practical work than to theoretical study, so in the theoretical study more time should be given to writing than to reading.

CONCLUSION

(91) May I conclude by anticipating one or two of the obvious criticisms which this paper invites.

(92) I am well aware that many aspects of the training problem have been passed over and others touched on only superficially. One of the biggest I have shirked is that of the desirability, scope and feasibility of some direct 'policing' by the Institute of the manner in which principals are carrying out the responsibilities delegated to them. Should there be some system of inspection with a view to ensuring that principals do not accept articled clerks to whom they cannot do justice (or more articled clerks than they can do justice to) and that, having accepted them, they are in fact providing an adequate standard of practical training?

(93) And what about the responsibilities and obligations of the articulated clerk? These too are weighty, the more so now that premiums have given way to salaries and articulated clerks must earn their keep. I have passed over these obligations only because they are not directly within the ambit of a discussion on training.

(94) Also what about the ladies in our profession? Let me assure them that the male gender which I have used throughout is intended to include also the female. I am very conscious of the contribution which is made by our lady members.

(95) Finally may I make two quotations which seem to me to frame the design of my paper. The first by an American in 1951:

'It has often been said that an accountant is paid for his judgment, not for his technical ability. If this thought were basic in the formation of curricula, would we not agree that general knowledge is as important as specialized training? The ability to sharpen one's perspective in a specific field stems from general knowledge promoted by general education. Such education would embrace an understanding of human relations and human conduct in the world of our forbears and in the world of our contemporaries. It would provide direction, judgment, and perspective for application to the speciality.' (Harry C. Zug in *Journal of Accountancy*.)

The second by an Englishman in 1885:

'Take a well-educated and thoroughly wholesome youth: keep him working steadily at balancing, checking and copying until he has habits of patient

application, neatness and accuracy; then stir briskly in affairs where he will learn the ways of commerce, the work of Companies and Corporate bodies, and the requirements of the Courts; infuse some legal knowledge; but the dominating flavour must be the faculty of understanding and marshalling figures, sifting facts and detecting error and deception. If the whole be seasoned with scrupulous honesty and a love of fair dealing, and be garnished with a courteous and manly bearing, you may serve up a Chartered Accountant well suited for the public taste, and containing in himself the germ of a successful professional life.' (Howard S. Smith.)

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(Concluded.)

Weekly Notes

Companies Act Breaches

Mr Justice Roxburgh made some comments on the difficulty of enforcing the penalty provisions of the Companies Act, 1948, when he ordered the restoration to the register of Moses & Cohen Ltd, a company which had been struck off by the Registrar of Companies (*The Financial Times*, August 1st, 1957). The company was formed in June 1955, but it did not comply with Section 107 of the Act, which requires notice to be given to the Registrar of the situation of the registered office. Equally the company failed to make a return of its directors and secretary. The penalty for an infringement of Section 107 was a fine not exceeding £5 for every day of default, and it applied not only to the company but also to every officer of the company in default. His lordship said he was informed that the Board of Trade did not contemplate any proceedings for the default as it might be difficult to satisfy the Court that Mr Herbert, the original secretary of the company, had acted 'knowingly and wilfully'. He felt bound to order the restoration of the company to the register since to refuse the order would be too great a penalty for the shortcomings of the directors and the

promoter-secretary. He regretted that he had no jurisdiction to impose any penalty himself. In the event these important statutory provisions could in general be disregarded with impunity. Statutes enforceable only with difficulty, if at all, tended to debase the currency of the law.

Tax on Coal Act Compensation

The Court of Chancery has reversed a decision of the Special Commissioners that payments of interim income as compensation under the Coal Industry Nationalization Act, 1946, fell to be assessed on the recipients under Case VI of Schedule D. The Court accepted the Crown's contention that the income was assessable instead under Case III of Schedule D, with the consequence that there was no deduction for expenses (*C.I.R. v. Whitworth Park Coal Co Ltd* (*The Times*, August 1st, 1957)). It was admitted that, if Case III applied, the payments would be assessable for the year in which they were received. If Case VI applied, there was a further dispute whether the payments should be spread over the periods in respect of which they were paid, as claimed by the company. Giving a written judgment,

Harman, J., rejected the argument that because the company had to incur expense to get the compensation, the income was analogous to a trading receipt. He held, on the contrary, that it was pure income payment which clearly fell within the charging words of Case III as 'other annual payments'. They were none the less so because they were paid under a discretion or might have to be repaid.

Divorce and Income Tax

Lord Justice Hodson, in the Court of Appeal, has made some interesting observations on the relevance of income tax and surtax where a man remarries after divorce. He was giving judgment in *Cockburn v. Cockburn* (*The Times*, July 31st, 1957) when the Court allowed the appeal of Mrs Annie Cockburn against an order by the County Court judge. Mrs Cockburn had divorced the defendant who had then been ordered by the justices to pay 30s per week to maintain the child of the marriage. He subsequently married another woman who also had a child, and there was another child by this marriage. As he was a miner with an income of less than £10 a week he had fallen £33 into arrear with the maintenance payments and on a judgment summons taken out by the first Mrs Cockburn the County Court judge made an order for the arrears to be paid at the rate of £1 a calendar month, the current payments to be suspended until the debt was cleared off. It was this order which was discharged by the Court of Appeal, the case being sent back for reconsideration. Hodson, L.J., said the facts were unhappily very common. Divorce and the right to remarry had been with us a long time, but it was only comparatively recently that people of modest means availed themselves of this right. There was now the odd situation that the man who paid a high rate of surtax was able to have several wives and deduct the maintenance in arriving at his taxable income so that he was little worse off, while the working man found it impossible to comply with the law which still enabled divorced wives, as well as present wives, to obtain maintenance.

Pacioli on the Mathematics of Beauty

Luca Pacioli wrote the first published exposition of double-entry book-keeping as part of his celebrated work on mathematics, the *Summa* of 1494. Fifteen years later another equally celebrated work, his *De Divina Proportione*, was published in Venice. This work has now been brought out in a limited edition by the Banca di Credito Finanziario of Milan, and a copy has been presented to the Library of The Institute of Chartered Accountants in England and Wales, which is already the proud possessor of three copies of the *Summa*. The present edition of the *Divina Proportione*, which deals with what may be called the mathematics of beauty, is itself a work of beauty; and its sponsors, together with the several Italian firms responsible for the paper, printing, colour

plates and cover, are to be congratulated on a fine achievement.

The work is concerned with the geometry of regular solid bodies, and with it, with a unifying aesthetic principle, the 'divine proportion', later known as the 'golden section'. The connection between these two apparently disparate subjects lies in the fact that the divine proportion is a mathematical relationship which occurs frequently in the theory of regular polygons and polyhedra. The divine proportion is achieved when a line is divided in two parts so that the ratio of the whole to the greater part is equal to the ratio of the greater to the lesser part. And Pacioli attempts to show that this mathematical relationship is present, as the essence of beauty, in such diverse objects as architectural forms, the human body and the capital letters of the Latin alphabet. Pacioli was not the first, nor has he been the last, to exalt the golden section in this manner.

The text of the *Divina Proportione* is supplemented by a number of illustrations based on original designs of Leonardo da Vinci, Pacioli's friend and collaborator. The present edition is adorned by colour reproductions in facsimile of Leonardo's original designs of sixty regular geometric bodies, which are preserved in the Ambrosiana in Milan.

Slower Overseas Investment

It is not easy to get a clear idea of how this country's overseas investments behave. The figures, when they become available, are rather out of date and are mostly net of various kinds of liquidation. In consequence, the rate at which British overseas investment is growing or declining and its level of remuneration are among the least satisfactory statistics published.

The Bank of England's annual survey of United Kingdom overseas investments for 1955 is the latest and, in fact, only available source. According to these figures there was a slowing down in the rate of overseas investment in that year and most of what took place was in the share capital of British companies. This kind of investment went up by £5 million over the year and was offset by £12 million disinvested in Government and municipal loans. So far as the pattern of investment is concerned, there was a notable swing away from foreign to Commonwealth shares and securities. Gross new investment in the Commonwealth included £17 million nominal capital in new Government and municipal loans.

Overall, there was a net increase of £10 million in overseas investments to a total of £2,137 million, compared with an advance of £111 million in 1954. Interest and dividends earned in 1955 came to £207 million, an increase of almost £21 million on the year before.

Capital Expenditure in the First Quarter

First official estimates of the nation's spending and output in the first quarter of 1957 show that exports and investment took a big share of the quarter's increase. A full account of the quarter's figures is

given in the July issue of *Economic Trends*.¹ The volume of the gross domestic product was nearly 2 per cent higher than the first quarter of 1956. The volume of fixed investment went up by 3 per cent and the value of exports by 7 per cent. Some of this large increase in exports was accounted for by an increase in volume. Personal consumption was up 1 per cent in real terms.

Gross fixed investment, both in the public and in the private sectors, continued to increase, but the rate of increase was well below the first half of 1956. A 3 per cent advance in the volume of outlay compared with a year earlier contrasts with a 10 per cent increase in the first quarter of last year. The volume of spending on vehicles, ships and aircraft was down by 11 per cent, but there was an increase of 2 per cent in the outlay on plant and machinery, 5 per cent on dwellings and 10 per cent on other building work. The comparatively high level of building activity was a reflection of the mild weather.

Current expenditure by public authorities, including both the central government and local authorities, remained unchanged between the fourth quarter of 1956 and the first quarter of 1957. There was an increase compared with the first quarter of last year, but most of this was accounted for in higher prices.

July Fall in Gold Reserves

During July, the gold and dollar reserves fell by \$14 million to \$2,367 million – the first drop on the month since last January. There seems to have been no outstanding factor in the reversal. At this time of the year seasonal pressures are against sterling and a fall of this size creates no fresh anxiety. In broad terms the deficit probably represents an interim position. Early seasonal pressure on the pound is building up and has not been offset by any renewed burst of confidence in the future of sterling.

To some extent the position is clouded by the international exchange position of the Deutschmark and the franc. In July there was a record E.P.U. surplus for Germany and its foreign exchange and gold reserves amounted at the close of the month to nearly \$4,000 million. The chronic flow of gold and hard currency to Germany is in marked contrast to the experience of the franc. The possibility of devaluation of that currency in the autumn is now widely agreed. France has temporarily, at least, expanded its economy more quickly than its resources will allow and the flight from the franc is now assuming large proportions. While these two currencies are each an object of speculation it is to be expected that an international currency like the pound should be caught up to some extent in the cross currents. The most favourable feature of the sterling reserves for July is the fact that this country has entered upon the second half of the calendar year with a balance of payments surplus for the year ended June 1957, despite the incidence and the after-effects of the Suez crisis.

¹ H.M.S.O., price 2s 6d.

Pensions in 1956

The annual report of the Ministry of Pensions and National Insurance for 1956¹ shows that the combined cost of benefits paid out by the Ministry was at the rate of £870 million a year at December 31st, 1956; more than half of this sum being on retirement pensions. Among the most important developments during the year were the increased pensions and allowances for war orphans and the children of war widows, and a higher maximum rent allowance for such widows. Higher earnings limits for retirement pensions and widows' benefits, new age limits for family allowances, and increased allowances for larger families were also introduced.

The report refers to important changes in the war pensions scheme which came into operation early in 1957. The comforts allowance, which is paid to very severely disabled pensioners, was doubled from 10s to 20s, and at the same time comforts allowance at the old 10s rate was extended to categories of pensioners not previously entitled to it.

At the end of 1956, over 3½ million families with about 8½ million children were receiving allowances for each child after the first under the age limit. Nearly 168,000 persons were receiving unemployment benefit – compared with 121,000 a year earlier – and the cost of this benefit for the year ended March 31st, 1956, was about £15½ million. The number of national insurance contributors at March 31st last year was over 24 million, of whom over 16½ million were men. Over 22 million were employed persons, nearly 1½ million were self-employed, and over half a million were non-employed.

The income of the National Insurance Fund for the year was £710½ million. Of this, £570 million came from employers and insured persons; £92 million from the Exchequer, and £47½ million from income derived from investments of this Fund and the National Insurance (Reserve) Fund. Payments of nearly £674 million included over £601 million for benefits; over £40 million to the Health Service, and £27½ million for administration.

Expanding Refinery Capacity

Oil refining capacity in this country is at present just over 30 million tons a year. It is expected to increase by a further 10 million tons before the end of 1959 and to go on to over 48 million tons by the close of 1961. Much of this future expansion depends on Esso getting permission to go ahead with its £20 million oil refinery project at Milford Haven. Both Shell and B.P., however, have big expansion programmes on hand as well.

Most of this increase is planned to cater for the expansion in the demand for medium to heavy oils which is expected to arise in this country over the next few years. It will be a consequence of probable greater use of Diesel prime movers, but there is also a large expansion programme in petroleum chemicals to take into account as well.

¹ Cmd. 229, H.M.S.O., 5s 6d net.

Reviews

Manual of Cost Accounting in the Footwear Industry

(Published jointly by The Incorporated Federated Associations of Boot and Shoe Manufacturers of Great Britain and Ireland and The Society of Incorporated Accountants. 45s net.)

The ambitious project to produce a definitive costings manual for the footwear industry, planned by members of the industry and by representatives of The Society of Incorporated Accountants ten years ago, has now come to full fruition in this handsome volume. It describes the principles to be observed and the methods to be employed in setting up a system of cost estimating, recording and control, based on the best practices current in the trade and on the latest developments in management accounting. The first part of the book deals with cost estimating and recording, measures which must be used to some degree by all firms in the trade. The second part is concerned with more advanced methods of cost control. Smaller businesses may not be ready at present to implement all these refinements but, if they adopt – even in a modified form – the principles considered in the first part, their systems may be later extended and adapted so as to absorb the complete range of techniques covered by the manual.

Two outstanding features of this work are the lucidity of its language and the clarity of its diagrams and tables. When writing for the express instruction of executives and senior operatives, the importance of directness and clarity cannot be over-stressed. In this instance, the exactly right balance of style has been struck at the beginning and maintained consistently throughout; so much so that, in turn, the reader with a general acquaintance with costing techniques but without specialized knowledge of the footwear industry, may follow the argument almost without pause. This conspicuously successful example of collaboration between accountants and technicians must surely lead to similar joint efforts by the profession with other industries inadequately served by its available costing literature.

Statistics in Theory and Practice Fourth Edition

by L. R. CONNOR, M.Sc.(ECON.), F.I.S., and
A. J. H. MORRELL, M.A., F.I.S.

(Sir Isaac Pitman & Sons Ltd, London. 30s net.)

Since the previous edition of this book appeared, twenty years ago, the science of statistics has developed considerably. The authors, in consequence, decided to rewrite the work and give due emphasis to the modern methods employed in the selection and presentation of data. The result is a thoroughly readable narrative which leaves the beginner, for whom the work is intended, with a sound knowledge of the

basic principles used in sorting and assembling information and of their practical application to the events of the day. To be of the maximum use, statistical tabulations must be topical and the authors' claim that they are catering for people who wish to take an intelligent interest in current events is fully justified by the treatment of their subject and by the examples which they have chosen to illustrate their precepts.

Tax Planning and the Family Company with Precedents

by DAVID R. STANFORD, M.A., LL.B.

(Sweet & Maxwell Ltd, London. 50s net.)

The purpose of this book, as explained in its preface, is to give a co-ordinated account of the taxation problems facing the family company and its members. The author approaches each of the five main direct taxes from the point of view of such a group and he does so with the object of enabling the book to be read without previous knowledge. This necessarily involves devoting a very large part of the book to an exposition of these various taxes and of the exemptions therefrom, as well as to the specific anti-avoidance legislation and the accepted methods of coping with it. The stress is of course on the anti-avoidance legislation which, as the author points out, strikes the innocent as well as the guilty, and he gives a very full exposition of, for instance, Section 46 of the Finance Act, 1940, a section very rarely applied in practice.

The exposition of more elementary matters is somewhat brief and the account of the system of profits tax non-distribution relief tends to be confusing. The author rather surprisingly attacks the Revenue practice of imposing Schedule E tax on sums paid by employers in discharge of their employees' liabilities – possibly from an innocent unawareness of the decision twenty-two years ago in *Nicoll v. Austin*. He is much more at home when dealing with settlements aimed at avoiding income tax, surtax and estate duty.

There are twenty-seven precedents in the book, the author stating that he has rejected most of the numerous effective and complex schemes brought to his notice, on the ground that they cannot find a place in a book of this nature. Most tax planning schemes, he says, are based on a few simple rules; the complex structure necessary in any particular case is rarely of much use in a second case, however slightly it may differ from the first on its facts. The precedents are accordingly very simple. There is the common form article restricting the right to transfer shares (with the object of reducing their value for estate duty purposes), a common form service agreement for a managing director, a common form agreement to sell shares, a common form agreement to allot bonus shares, and similar matters.

Accounting Fundamentals
*Third Edition*by GEORGE A. MACFARLAND, ROBERT D. AYARS,
and WILLIARD E. STONE(McGraw-Hill Publishing Co Ltd, London.
49s net.)

The first 400 pages of this textbook, intended for first-year university students, consist of theoretical instruction on all phases of accounting from books of original entry to the preparation and analysis of financial statements. The last 200 pages contain sets of practical problems on which the student may try out his newly-acquired knowledge and powers of understanding. The text is clear and logical and the questions set (295 in all) are designed so as to substantiate the claim of the authors that the work is intended to challenge, capture and hold the student's interest.

SHORTER NOTICES

PARTNERSHIP LAW WITH 100 TYPICAL EXAMINATION QUESTIONS. Ninth edition, by E. Miles Taylor, F.C.A., F.S.A.A. (Textbooks Ltd, Harpenden, Herts. 7s 6d.) This book, in rather more than fifty pages, covers the whole ground of partnership law in a summary fashion of obvious utility to students with little time to spare for the more elaborate textbooks. The 100 typical examination questions are indeed typical, and the references which follow them, to the relevant section of the book, should enable the student to find the answer quickly.

INCOME TAXES OUTSIDE THE COMMONWEALTH. First Supplement (February 1957). (Her Majesty's Stationery Office, London. 15s net.) In its original

form *Income Taxes Outside the Commonwealth* covered only the United States and Ireland. This new supplement brings in the income tax laws of two more countries having close relations with the United Kingdom, namely, France and Belgium. Each section has its highly useful appendix setting out current rates of tax and personal allowances, and also an index. As one might expect of a publication from such a source, the standard of exposition is very high indeed. With the supplement are new sheets containing amendments of the matter already published, and a list of manuscript amendments to be made.

RECENT PUBLICATIONS

STATISTICS: A New Approach, by W. Allen Wallis, Professor of Statistics and Economics, University of Chicago, and Harry V. Roberts, Associate Professor of Statistics, University of Chicago. xxxviii+646 pp. 9½×6. 50s net. Methuen & Co Ltd, London.

KEY TO MUNRO'S ELEMENTARY BOOK-KEEPING, by Andrew Munro, F.C.I.S. New and revised edition by Alfred Palmer, A.S.A.A. 141 pp. 7×5. 10s 6d net. Sir Isaac Pitman & Sons Ltd, London.

INTERNATIONAL MONETARY POLICY, by W. M. Scammell. xiv+402 pp. 8½×5½. 40s net. Macmillan & Co Ltd, London.

THE WORLD DOLLAR PROBLEM, a study in international economics, by Donald MacDougall, Fellow of Nuffield College, Oxford. xvii+622 pp. 8½×5½. 50s net. Macmillan & Co Ltd, London.

CHALLENGE TO CHANCE, by E. Lenox Figgis, with an introduction by A. P. Herbert. 200 pp. 8½×5½. 21s net. Arco Publications Ltd, London.

BOOK-KEEPING FOR SOLICITORS, 2nd edition, by R. J. Carter, B.COM., F.C.A. vi+156+15 pp. index. 8½×5½. 27s 6d net. Butterworth & Co (Publishers) Ltd, London.

THE MONEY IN YOUR POCKET, by David St L. Morris. vii+121 pp. 7×5. 2s 6d net. The World's Work (1913) Ltd, Kingswood, Surrey.

Finance and Commerce

Holiday influences have checked the flow of stock-market business in the past week. Uncertainty has persisted in industrial equities but the gilt-edged market has held reasonably firm. Development of new issues activity and anticipation of take-over tussles combine to provide interest outside the normal run of business.

Building Society Half-year

We reproduce the half-year figures issued by the Co-operative Permanent Building Society and the Alliance Building Society, with the comment that both societies show a commendable appreciation of the public interest. The movement has such a long record of stability that we doubt whether the average investor in a building society examines its accounts as closely as the investor in a public company.

Building societies, however, are a very important part of the national economy and borrowing short and lending long as they do, the extent to which current interest rates are affecting them is of vital public interest.

Meetings

Within a few days, two company chairmen expressed opposite views on the best procedure for company meetings. Col. Sir Alfred Law Mowat, the chairman of The English Card Clothing Co Ltd, tells shareholders that unless special circumstances make it necessary, he will have nothing to add to his statement with the accounts at the meeting in Huddersfield.

Mr B. C. Westall, the chairman of Thomas De la Rue & Co Ltd, keeps his review of developments for the annual meeting in London. He hopes by so doing that more stockholders will attend the meeting than would be so if his speech were circulated with the report.

Between the two procedures there is a wide gulf of opinion, which for the most part is on the side of putting everything that can be said about the company in print with the report and accounts.

Mr Westall certainly has much to talk about. His company produces Formica and there is the new agreement with the American Cynamid Company, to which De la Rue has been paying royalties, putting relations with the American company on a new basis.

De la Rue, one of the great names in security and bank-note printing, has also obtained a contract for the supply of printing machinery to America for printing dollar bills. It is a great compliment to the company that its machines print both the pound and the dollar.

But we doubt whether speeches at meetings do much to gather in the audience. Unless it is a meeting like that of the recent Hide & Co Ltd event, where some 500 members gathered to see two and a half hours of pandemonium and the abandonment of the proceedings with very important matters affecting the capital and the voting still undecided.

Tax Adjustment

Dr R. J. S. Seligman, chairman of The A.P.V. Co Ltd, draws attention, in his statement with the accounts for 1956, to a tax adjustment which has followed from a revision of the stock valuation basis.

In the late summer of 1956, he states, the directors became concerned about the effect which difficult trading conditions were having on the company's cash resources. Messrs Peat, Marwick, Mitchell & Co, Chartered Accountants, were therefore requested to advise on the financial position.

On their recommendation, the board decided to revise the basis on which they valued freehold stocks and work in progress. The consequential adjustment which the accountants negotiated with the Inland Revenue relieved the company of immediate taxation commitments of £163,000.

This relief, and a careful pruning of stock levels, says Dr Seligman, has materially improved the position.

Dollar Premium

A change in the investment valuation by English & Caledonian Investment Co Ltd, is of interest in view of the sharp rise in what is called the dollar premium following the closing of a gap in security sterling exchange.

The company, on its accounting date March 31st last, had investments with a book value of £1,313,465 compared with £1,322,618 at the end of the previous year. Market value was £2,063,834, which showed an appreciation over book value of £1,650,369—or 125.65 per cent—compared with 110.75 per cent at March 1956.

Mr Henry S. Loeb, the chairman, points out that since they substantially increased their holdings in dollar securities, the dollar premium in London until recent months had been negligible and it had not been their practice previously to take it into account when valuing investments.

But at March 31st last, the premium reached 7½ per cent and in view of this rise, it had been included in the investment valuation, a change in practice which had increased the valuation by some £34,000.

Since the closing of the exchange gap, the dollar premium has been as high as 19½ per cent.

Money Market

The market syndicate's bid for Treasury bills was raised by 2d to £99 or 11d at the tender on August 2nd. The average rate was reduced to £3 16s 4.78d per cent. Applications totalled £387,700,000, but only £220 million of the £230 million of bills offered were allotted. This week's offer is £220 million.

CO-OPERATIVE PERMANENT BUILDING SOCIETY Statement for the Half Year ended 30th June, 1957

	At 30th June, 1957	Variation from 31st Dec., 1956
INVESTORS' BALANCES	£ 147,459,000	+9,683,000
MORTGAGE ASSETS	127,530,000	+6,799,000
LIQUID ASSETS	23,873,000	+2,926,000
(Including Cash, Treasury Bills and Tax Reserve Certificates £3,530,000)		
TOTAL ASSETS	153,615,000	+9,930,000

	Year ended 31st Dec., 1956	6 months ended 30th June, 1956	6 months ended 30th June, 1957
Receipts from Investors ..	£ 33,664,000	£ 17,478,000	£ 18,554,000
Withdrawals by Investors ..	21,489,000	10,840,000	11,185,000
(Including Interest)			
Amount Advanced	21,451,000	11,090,000	12,845,000
Repayments	18,061,000	8,312,000	9,742,000
(Including interest)			

The Society continued to make solid progress during the first half of 1957 and reached another milestone when it attained £150 million total assets in April. Net receipts from Investors (gross receipts minus withdrawals) were £731,000 higher than in the corresponding period of 1956, despite a rise in withdrawals. Total assets rose by £9,930,000. In the first half of 1956, they rose by £11,694,000 but, of this sum, over £3 million was accounted for by the Exeter Benefit merger in March of that year. Liquid assets at £23,873,000 (including £3,530,000 in the form of Cash, Treasury Bills and Tax Reserve Certificates) were increased by £2,926,000 during the period, and at the close of the half year represented 15.54 per cent. of the Society's total assets. Mortgage lending in the six months totalled £12,845,000, an average of £2,141,000 per month.

ALLIANCE BUILDING SOCIETY Operations for the Half Year ended 30th June, 1957

The Directors have pleasure in making available the half-year's figures of progress and turnover to 30th June 1957, together with comparative figures for the preceding year.

It is noteworthy that the receipts from Investors substantially exceeded those for the corresponding period in 1956, while withdrawals were notably lower.

The amount advanced on new mortgages has been held steady at a figure corresponding closely with that for the first half of 1956, while repayment (which include outright redemptions as well as the usual monthly payments) also remain at a similar level.

The liquidity ratio at 30th June shows the very satisfactory figure of 16.47 per cent.

	At 30th June, 1957	Variation from 31st Dec., 1956
Investors' Balances	£ 57,921,000	+3,705,000
Mortgage Assets	48,522,000	+3,400,000
Liquid Assets (Inc. Cash and Treasury Bills £1,032,000)	9,870,000	— 6,000
Total Assets	59,919,000	+3,688,000

	Year ended 31st Dec., 1956	6 months ended 30th June, 1956	6 months ended 30th June, 1957
Receipts from Investors ..	£ 12,672,000	£ 6,283,000	£ 7,224,000
Withdrawals by Investors ..	9,565,000	4,893,000	4,454,000
(Including Interest)			
Amount Advanced	10,206,000	6,159,000	6,010,000
Repayments	7,931,000	3,932,000	4,094,000
(Including interest)			

Current Law

Liability for Servant on Way to Work

The plaintiff in *Ashdown v. Samuel Williams & Sons Ltd and Another* ([1957] 1 All E.R. 35) was employed by the second defendant, whose premises she reached by a route, which was shown to her when she was engaged, across land owned and occupied by the first defendant. The second defendant was a lessee of the first defendant, and the second defendant's premises could only be reached by crossing the land retained by the first defendant. A curving railway track lay across the land retained, and the plaintiff was knocked down and injured when crossing it. The first defendant had put up notices warning those who used the route taken by the plaintiff that they did so at their own risk, and disclaiming responsibility for injury which might befall them.

The Court of Appeal held that neither defendant was liable to the plaintiff in respect of her injuries. So far as concerned the first defendant, the warning notice was adequate, and the second defendant was under no duty to foresee the danger and warn the plaintiff of dangers which were patent and well known to her. The Court thus reversed in part the decision of Havers, J. ([1956] 2 All E.R. 384), who had held the second defendant liable. But both Jenkins, L.J., and Parker, L.J., refused to accept a contention that an employer could never be liable for the safety of his employee while on his way to the premises where he is employed.

It is clear, therefore, that it is the duty of an employer at least to warn his employee of any special dangers of which the employer knows but of which the employee may not be aware, even though those dangers lie outside the area of the employer's control.

Calculation of Legacy

Two quite distinct questions of construction of a will came before Vaisey, J., in *Re Dawson's Will Trusts, National Provincial Bank Ltd v. National Council of The Y.M.C.A. Incorporated and Others* ([1957] 1 All E.R. 177). In his lifetime the testator created a trust and gave to it £21,072 6s 6d, on which estate duty amounting to £8,468 3s 5d became payable on his death. By his will he gave to the trust 'such a sum as will with the moneys I have already given . . . amount to £27,000'. His lordship held, in answer to the question whether the trustee was entitled to £5,927 13s 6d to make up the sum of £21,072 6s 6d to £27,000 or to £14,395 16s 11d to make up the sum of £21,072 6s 6d less £8,468 3s 5d to £27,000, that the trustee was entitled to the larger sum, because it was to be inferred from the general scheme of the will that the testator wanted the trust to be put in possession of a clear sum of £27,000. He had given a number of pecuniary legacies 'free of duty' and this indicated an intention that no deductions or reductions for duty were to be made.

The second question arose out of the testator's gift of a share of residue to 'the Church Association of 13-14 Buckingham Street, Strand, London, WC2' for its general purposes. Prior to the date of the will the Church Association had been amalgamated with the National Church League (Incorporated) to form a new body, the Church Society. This body had never occupied the premises referred to, though they had long been occupied by the Church Association.

Vaisey, J., held that the Church Society might well be the Church Association under another name, and that the purposes of the Church Association were charitable and the purposes for which the gift was given were identifiable charitable purposes, although it was not certain that the purposes of the Association were in all respects identical with those of the Society. Accordingly, his lordship held that the Church Society was entitled to the gift, although it might be that a scheme for its application should be prepared.

Assignment of Lease: Landlord's Refusal of Consent

The plaintiff in *Adler v. Upper Grosvenor Street Investment Ltd* ([1957] 1 All E.R. 229) was a tenant of a flat under lease from the defendant. A clause of the lease contained a covenant not to assign without the previous consent of the lessor, such consent (subject as thereafter provided) not to be unreasonably withheld, with a proviso that, if the tenant wished to assign, he should first offer in writing to surrender the lease to the lessor. The tenant asked for leave to assign to a designated assignee, and the lessor refused consent, giving various grounds and adding that the tenant had failed to comply with the proviso. Section 19 (1) of the Landlord and Tenant Act, 1927, provides:

'In all leases . . . containing a covenant, condition or agreement against assigning, underletting, charging or parting with the possession of demised premises or any part thereof without licence or consent, such covenant, condition or agreement shall, notwithstanding any express condition to the contrary, be deemed to be subject—(a) to a proviso to the effect that such licence or consent is not to be unreasonably withheld. . . .'

Hilbery, J., refused declarations claimed by the tenant that the proviso in his lease was void and that the defendant lessor was not entitled to refuse a licence to assign by reason only that the tenant had not offered to surrender the lease, holding that the proviso in the lease did not prevent the operation of the proviso in the section, but imposed a condition precedent to the coming into operation of the covenant against assigning or subletting without consent. If an offer of surrender of the lease were refused, the tenant would still have the right to offer an assignee to whom objection could not reasonably be taken.

Ordinary Preferred Stock or Shares

In *Re Powell-Cotton's Resettlement, Henniker-Major and Others v. Powell-Cotton and Others* ([1957] 1 All E.R. 404), Roxburgh, J., was called upon to decide the meaning of the expression 'ordinary preferred stock or shares' in the investment clause in a settlement. The expression was to be found in *Key & Elphinstone's Precedents in Conveyancing* from the sixth edition (1899) to the fourteenth (1940), but apparently its meaning had never been considered judicially before. Roxburgh, J., held that 'ordinary preferred stock' was logically a lawyer's description of what the stock exchange called 'preferred ordinary stock' and was a sub-class of ordinary stock having some preference or priority over another sub-class of ordinary stock. Because the important thing for business purposes when there were two classes of ordinary stock was to distinguish the two sub-classes one from the other, the stock exchange, in denoting shares, put the distinguishing sub-class ahead of the original class.

Life-tenant or Absolute Owner?

A short point came before Danckwerts, J., for decision in *Re Gouk, Allen v. Allen and Others* ([1957] 1 All E.R. 469). The testatrix, after giving legacies, gave

'... all the remainder of which I am possessed to my sister ... and thereafter to her issue.'

Applying *Byng v. Lord Strafford* ((1843) 5 Beav. 558) and *Re Percy, Percy v. Percy* ((1883) 24 Ch.D. 616), where the word used was not 'thereafter' but 'afterwards', which he found indistinguishable in meaning, the learned judge held that the sister took the residue absolutely, not merely for life.

Undertaking to Obtain Export Licence

In many cases, the obtaining of an export licence is an essential step in the performance of a contract for the sale of goods. The position of the party whose duty it is to apply for a licence was considered by Devlin, J., in *Peter Cassidy Seed Co Ltd v. Osuustuk-kukauppa I. L.* ([1957] 1 All E.R. 484), where his lordship said:

'The person whose duty it is to apply for a licence may either warrant that he will get it, that is an absolute warranty, or he may warrant that he will use all due diligence in getting it. When nothing is said in the contract it is usually - probably almost invariably - the latter class of warranty which is implied, but each case must be decided according to its own circumstances and the question of implication must be settled in the ordinary way in which implied terms are settled.'

In the case before his lordship, the plaintiff buyer had agreed with the defendant sellers to buy ants' eggs from Finland, by the law of which country ants' eggs could only be exported under licences, which

were generally granted only to members of the Ant Egg Exporters' Association. The contract contained the term: 'Delivery: prompt, as soon as export licence granted.' The sellers, who were not members of the Association, failed to obtain a licence, and the question was referred to arbitration whether the defendants were in breach of contract.

The matter came before Devlin, J., in the form of a special case stated by an umpire, who had made an award in favour of the plaintiff after the arbitrators appointed by the parties had failed to agree on an award. Devlin, J., upholding the award, held that the words 'Delivery: prompt, as soon as export licence granted' showed that the assumption of both parties underlying the contract was that an export licence would certainly be granted, the only question being at what precise moment of time this would take place, because delivery could not be made till it was granted. Accordingly, his lordship held that the sellers were warranting absolutely that they would get a licence. At the conclusion of his judgment the learned judge criticized the fact that the case had not been started in the Commercial Court, where it could have been dealt with expeditiously, whereas the proceedings on arbitration had been protracted since 1953.

Gift to Unidentifiable Charity

The testatrix in *Re Goldschmidt, Commercial Union Assurance Co Ltd v. Central British Fund for Jewish Relief and Rehabilitation and Others* ([1957] 1 All E.R. 513) directed her trustees to stand possessed of what she called her 'residuary estate' to pay thereout pecuniary legacies to seventeen institutions. Finally she directed her trustees to hold any balance of her residuary estate for another institution, which was clearly charitable. Of the seventeen institutions named as pecuniary legatees, fourteen were clearly designated and were charities. Two of the others had ceased to exist before the date of the testatrix' death and it was agreed that the gifts to them lapsed and fell into residue. The remaining legacy was 'to the Fund for the Relief of Distressed German Jews in England'. There was no such institution, but two institutions claimed to be the *persona designata* and two others could also possibly have been intended to benefit. It was argued that the legacy in question did not lapse, but should be applied *cy-près* on the basis that the testatrix had shown in regard thereto a general charitable intent.

Harman, J., held that, as a matter of construction, the testatrix intended to give to a particular institution, and not to an object: accordingly, this legacy was in no different case from the two which had admittedly lapsed, and it fell into the ultimate residue. His lordship's decision was affected by the fact that the ultimate residuary legatee was itself a charity, and he said that if it were a matter of residue being undisposed of, or even going to some legatee outside the charitable rank, the case might be different.

Reconstruction of War Damaged Premises

The Court of Appeal has unanimously affirmed ([1957] 1 All E.R. 519) the decision of Vaisey, J., in *City of London Real Property Co Ltd v. War Damage Commission* ([1956] 3 All E.R. 236) which was noted in Current Law in *The Accountant* dated October 20th, 1956.

Restrictive Trade Practices: Price Maintenance

County Laboratories Ltd v. J. Mindel Ltd ([1957] 1 All E.R. 806) shows that the Court will apply strictly Section 25 of the Restrictive Trade Practices Act, 1956, which permits a supplier to enforce a fixed retail price against any person with notice of the fixed price who subsequently acquires the goods. The applicant's goods were manufactured after the

Act came into force, but it was possible to ascertain this only by means of a secret mark which was not known to the respondent, who resold the goods at less than the fixed price.

Harman, J., said that, although he was bound to give to Section 25 that effect which the language of it expressed, he was not prepared to go beyond that, and stretch it so as to produce an effect which the express language did not warrant, pointing out that it was a section limiting the freedom of trade. Taking with 'notice' meant taking with express knowledge not 'being put on inquiry and, therefore, being fixed with what would have been ascertained if the inquiry had been pushed to its reasonable limit', and the applicant had failed to prove 'notice' by the respondent.

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

'Taxing Bank Interest'

SIR, - With reference to the interesting contributed article on the *Hart v. Sangster* taxation case in *The Accountant* of July 6th, I would be grateful if, as a corollary, your contributor could add a note on what effect the decision is likely to have on the liability of the taxpayer.

Presumably an asset which had been earning assessable income was converted into cash of £2 million which in turn earned assessable income in the form of bank interest. This £2 million may be re-converted into some other form of asset in the future. In these circumstances will the Court of Appeal's decision have affected the amount of tax payable by the taxpayer or only the dates on which he becomes liable for tax? Was the taxpayer, in effect, seeking a reduction in liability or a deferment of liability?

Yours faithfully,

London, SW16.

F. J. E. BLANKS.

[Our contributor writes: The effect of the Court of Appeal's decision in *Hart v. Sangster* is that tax will be charged a year earlier than is the case where the 'preceding year' basis is applied to bank interest. The comparable assessments on (i) the 'preceding year' basis, and (ii) the 'current year' basis would have been £53 and £7,037 respectively for 1951-52; and £7,000 and £29,371 respectively for 1952-53. The taxpayer was therefore seeking a reduction of liability, rather than a deferment of liability. The subsequent position would be governed by circumstances: on the withdrawal of a deposit the taxpayer might claim that the 'cessation' basis be applied to interest on the sum withdrawn.]

There is no reason to suppose that in the generality of cases the 'preceding year' basis will not continue to be applied where the deposit is small or the balance retained reasonably stable. The difficulty envisaged is that of knowing where the line will be drawn in future.]

'The Cause and Cure of Inflation'

SIR, - I was pleased to read that Mr Fairweather, in his article in your issue of July 27th, pinned the responsibility for inflation squarely onto the Government - where it clearly belongs.

He did not, however, make the point that, as the biggest debtor in the country, the Government has an immense vested interest in inflation.

For it to dishonour any part of the National Debt would arouse a fearful storm, but the gentle devaluation of the whole lot by inflation - post-war credits an' all - seems to rouse very little comment.

I wonder what he and your readers would say about this.

Yours faithfully,

Bristol, 8.

G. O. CANNING.

Goodwill of Accountancy Practice

SIR, - I noted in a recent issue of *The Accountant* that a practice was advertised for sale with gross recurring fees of £2,300, for which the goodwill asked was £4,250.

Costs of running a practice nowadays are greater than formerly, but in a small practice are probably in the region of 40 per cent to 45 per cent of the gross fees, before charging any salaries of partners. Therefore, in the case mentioned the expenses are likely to be about £950, leaving £1,350 to cover the salary and profit of the partner, excluding any weighting for 'risk elements'.

Surely the standard of knowledge, integrity and business ethics demanded of a chartered accountant merit remuneration of £1,350 a year, without having to pay over £4,000 for the privilege of working to earn this sum.

It will be realized that, at the present normal rates of tax, a person has to have excess income over living expenses over a period of years of about £8,000 in order to save £4,250 to pay for the goodwill.

Has not the time come when the situation must be faced that only 'super profits' have any goodwill value whatsoever, and that even a chartered accountant is worthy of his hire before ascertaining the 'super profits' of any firm?

To show I am honest in my opinion, I truly sign myself,

Yours faithfully,
RETIRING F.C.A.

'The Measurement of Profit'

SIR, - If the dictum of Fletcher Moulton, L.J., in *The Spanish Prospecting Co Ltd* case is correctly quoted in Mr R. H. Parker's article in your issue of July 20th, it is surprising that it has escaped comment in forty-six years. 'We start, therefore, with this fundamental definition of "profit", viz, if the total assets at the two dates be compared . . .'

This 'fundamental definition' suffers from a fundamental omission - the word 'net' before 'assets'! The learned judge's addendum did not go far enough. To follow out the strict consequences of the legal conception of profit postulated would not only be difficult, a distribution of such profit might very well lead to appearance before another learned judge in a very different Court!

Yours faithfully,
Madras, 2. R. G. N. PRICE.

[Mr Parker writes: The case is correctly quoted. Most commentators have assumed, as I have done, that 'total assets' in this context means 'net assets'. The editors of Ranking and Spicer's *Company Law* (tenth edition, 1955, page 319), for example, paraphrasing the judgment, write: 'If the amounts of the net assets of a business be compared, the increase . . .']

Too Old at 36?

SIR, - I would appreciate your readers' views on the following, not strictly an accountancy problem, but one which I think is of interest to accountants.

Are we too old at 36? Reading the situations vacant columns, one would believe so, especially in the case of accountants. The majority of advertisers call for quite extensive experience but make the age limits 25-35. Surely an older man has more mature experience; he is not liable to jump to too hasty conclusions. Another factor in favour of the older man is that if these appointments are permanent, as they say they are, an older person is more likely to make it a permanency; the younger man will in all probability stay for a few years for the experience and then look around for a new post to broaden his experience.

It appears to me that at 40 one is too young to govern the country, the experience is not mature; but to look after the finances of a company one is too old. Does it make sense? Perhaps I am prejudiced, as at 42,

with twenty-five years' experience, I find it difficult to get a suitable position, but I am interested to know if others feel the same as I do.

Yours faithfully,
London, E4. T. STONE, A.C.I.S.

Dispensing with Receipts

SIR, - There has, of course, been a fair amount of discussion and correspondence regarding the use of receipts on the reverse of cheques, but as far as I am aware, less attention has been paid to the possibility of dispensing with receipts altogether, although I understand that one or two large public companies have taken a bold line in this respect.

In our business, we have a number of transactions with professional men, and in the main, payment is made by them on invoice. The heavy postage rates make the sending of individual receipts a considerable overhead expense and, moreover, many people when paying an account prefer to file the relative documents forthwith rather than wait several days for a receipt to come in. Accordingly, we are considering the use of a form such as that shown below, which would be sent out with invoices and/or statements.

It would be helpful and interesting to have the observations of your readers on the practical uses of such a scheme, and from the audit point of view.

Yours faithfully,
D. H. BROOKS,

Director and Secretary,
JOHN WRIGHT & SONS LTD.

Bristol, 4.

IF PAYING BY CHEQUE

We commend the use of the attached for your convenience, and to dispense with the need for a receipt.

1. You can immediately file the paid invoice or statement (with gummed slip giving cheque reference).
2. Absolute security is assured by correctly drawing the cheque to: XYZ Ltd, and crossing it:

a/c
payee
only

N.B. - In the unlikely event of query arising or for audit, the paid cheque with our endorsement is obtainable from your bank to substantiate payment.

Formal receipt will be sent for payment by cash or P.O., or if requested.

FOR ENVELOPE	XYZ LTD, 1 High Street, London, EC1.
ATTACH TO INVOICE OR STATEMENT AND RETAIN ON YOUR FILE:	Cheque No. £ payable to XYZ Ltd and crossed 'a/c payee only' sent (date).....
ENCLOSE WITH CHEQUE:	To XYZ LTD in payment of: reference inserted by XYZ Ltd, before dispatch.
	(no receipt re- quired) FROM: Name..... Permanent Address:

Taxation Cases

A full report of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Cooke v. Burton

In the High Court of Justice (Chancery Division)

June 5th, 1957

(Before Mr Justice HARMAN)

Income tax - Schedule E - Superannuation - New scheme - Retrospective entitlement to pension at lower rate - Reduction of lump-sum benefit - Whether smaller pension to be treated as taxable amount - Income Tax Act, 1918, Schedule E, Rule 1 - Local Government Superannuation Act, 1953, Section 1 - Local Government Superannuation (Benefits) Regulations, 1954 (No. 1048), Regulations 5, 17, 18, 19.

The respondent, on retiring from an appointment under a local authority on November 1st, 1950, became entitled to a superannuation allowance of £987 10s 0d a year. In 1953 an Act was passed to amend the law as to local authorities' superannuation funds, and pursuant to that Act the Local Government Superannuation (Benefits) Regulations, 1954, were made. These regulations provided for retirement pensions, retirement grants, widows' pensions and death grants.

The respondent elected to participate in this new superannuation scheme and his benefits were worked out on the supposition that his pension for the period from November 1st, 1950, had been £768. He claimed that he was assessable to income tax for that period on the footing that his pension had been £768 and not £987. The General Commissioners accepted this contention.

Held, that under the Regulations the respondent's pension was only to be deemed to be £768 for the purpose of calculating his benefits and not for tax

purposes and consequently that he had been correctly assessed on the basis that it was £987.

Davy v. Smethurst

In the Court of Appeal - June 3rd, 1957

(Before THE MASTER OF THE ROLLS (Lord EVERSHED),

Lord Justice MORRIS and Lord Justice PEARCE)

Income tax - Permission to excavate gravel - Whether a sale or a granting of a profit à prendre - Whether a right to use land - Income Tax Act, 1918, Schedule A, No. III, Rule 3 - Finance Act, 1934, Section 21 - Finance Act, 1948, Section 31 (1) (d).

A gravel merchanting company wrote to the respondent's agent asking permission to excavate an approximately stated quantity of gravel from an existing gravel-pit. The permission was granted, and the company paid 2s 6d a cubic yard of gravel excavated.

It was contended on behalf of the appellant that the transaction was the granting of a *profit à prendre*; and that the payments in question were payments for a right to use land within Section 31 (1) (d) of the Finance Act, 1948. It was contended on behalf of the respondent that the payments were payments of a price for gravel sold, and that in any event a *profit à prendre* was not a use within Section 31 (1) (d) which only covered uses appropriate to occupation, not ownership. The Special Commissioners decided in favour of the respondent.

Held (affirming the judgment of Mr Justice Wynn-Parry), that on the evidence the transaction was the grant of a *profit à prendre*; and that the payments were for a right to use land within Section 31 (1) (d) of the Finance Act, 1948.

New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES

(5 & 6 Eliz. 2)

Chapter 35: Maintenance Agreements Act, 1957

An Act to make provision with respect to the validity and alteration by the Court of financial arrangements in connection with agreements between the parties to a marriage, whether made during the continuance or after the dissolution or annulment of the marriage, for the purposes of those parties' living separately; and for purposes connected therewith.

Price 4d net.

July 17th, 1957.

Chapter 36: Cheques Act, 1957

An Act to amend the law relating to cheques and certain other instruments.

Price 6d net.

July 17th, 1957.

Chapter 37: Superannuation Act, 1957

An Act to make further provision as to gratuities payable in respect of persons employed in the Civil Service of the State otherwise than in an established capacity and as to the application of the Superannuation Acts to persons entering the Civil Service of the State after having been in other employment.

Price 6d net.

July 17th, 1957.

Chapter 39: Legitimation (Re-registration of Birth) Act, 1957

An Act to extend the operation of section fourteen and paragraph (d) of section thirty-six of the Births and Deaths Registration Act, 1953, and of the Schedule to the Legitimacy Act, 1926; and for purposes connected with that matter.

Price 3d net.

July 17th, 1957.

Notes and Notices

PERSONAL

MESSRS STOWELL & BAYLEY, Chartered Accountants, of 57 King Street, Manchester, 2, announce with regret the death of Mr HERBERT MONTGOMERY, F.C.A., a partner in the firm.

MESSRS FIALKO, BURNS & Co, Chartered Accountants, of 14 Howick Place, London, SW1, announce that Mr ALAN J. GOLDING, A.C.A., has been admitted as a partner as from August 1st, 1957. The name of the firm will remain unchanged.

MR AUSTEN WHITE, A.C.A., A.C.W.A., A.M.I.A., announces that he has removed his office from 22 St James' Road, Kingston upon Thames, Surrey, to Penrhyn House, Penrhyn Road, Kingston upon Thames. Telephone: Kingston 3133.

PROFESSIONAL NOTES

Mr Alexander Craig, C.A., has been appointed a director of The Brunner Investment Trust Ltd.

Mr Henry A. Bennet, A.C.A., has been appointed a director of Trinidad Petroleum Development Co Ltd.

Mr Leslie Jackson, A.C.A., has been appointed to a director of Spiers & Pond Ltd.

Mr J. T. Rowley, A.C.A., secretary of Hepworths Ltd, has been appointed a director of the company as from August 1st, 1957.

Mr Martin B. Browne, F.C.A., has been appointed chairman of F. Hills & Sons Ltd.

Mr E. A. Lowe, B.Sc.(ECON.), A.S.A.A., has been appointed lecturer in accountancy in the department of economics and commerce at the University of Leeds.

Mr Sydney Yates, A.S.A.A., A.I.M.T.A., deputy borough treasurer of Twickenham, has been appointed treasurer-designate of Coulsdon and Purley.

Mr H. C. Vincent, A.S.A.A., A.I.M.T.A., deputy borough treasurer of Macclesfield, has been appointed borough treasurer and chief financial officer of Tipton, Staffordshire, as from October 1st, 1957.

OBITUARY

LIEUT.-COL. JOHN BEAUMONT NEILSON,
C.M.G., D.S.O., C.A.

We have learned with regret of the death on July 27th, of Lieut.-Col. John Beaumont Neilson, C.M.G., D.S.O., C.A.

Colonel Neilson, who was admitted to membership of the former Institute of Accountants and Actuaries of Glasgow in 1910, was formerly associated with Messrs McClelland, Ker & Co, Chartered Accountants, of Glasgow and London, from which firm he retired at the end of 1934. He was a former director and joint managing director of Richard Thomas and Baldwins Ltd and retired in 1950 after twenty-three years' association with that company. Colonel Neilson was also a former director of Vickers Ltd, Lloyds Bank, and other companies and was chairman of English and Scottish Investors Ltd.

He commanded the 5th Battalion, the Highland Light Infantry during the First World War and was mentioned twice in dispatches; in 1917 he won the D.S.O., and he received the C.M.G. two years later.

IN PARLIAMENT

GOVERNMENT DEPARTMENTS: ELECTRONIC COMPUTERS

Lieut.-Comdr. MAYDON asked the Chancellor of the Exchequer how many electronic computers are now in use in Government departments; whether more of these machines are to be installed in the current financial year; and if he will give an estimate of man-hours saved or staff reduced consequent upon their use.

Mr J. ENOCH POWELL: Ten electronic computers are in use in Government departments on mathematical or scientific work. Five machines are due to be installed during the current financial year, of which three will be for work of a clerical or statistical nature. No estimate of staff savings consequent upon their use can be given until further operating experience is available.

Lieut.-Comdr. MAYDON: Can my hon. friend tell me what measures are taken to ensure that the use of this expensive equipment is co-ordinated between departments so as not to have unnecessary duplication?

Mr POWELL: Great care is taken before these machines are installed on preparatory work to ensure that the maximum benefit is derived from them.

Mr J. T. PRICE: Whilst everyone welcomes the scientific developments which will ease the drudgery of clerical work, will the Minister and his colleagues take every precaution against the use of these machines for compiling vast amounts of useless statistics about things not of general utility?

Hansard, August 1st, 1957. Oral Answers. Col. 1492.

ACCOUNTANTS APPOINTED TO NEW ELECTRICITY BOARD

Mr Ernest Long, F.S.A.A., F.I.M.T.A., and Professor R. S. Edwards, B.COM., A.A.C.C.A., have been appointed to the new Central Electricity Generating Board which has been set up under the Electricity Act, 1957, to exercise a more effective control over the generation of electricity. Professor Edwards, who is professor of economics with special reference to industrial organization at the London School of Economics, has been appointed a deputy chairman and will serve in a part-time capacity, while Mr Long, who has been secretary of the Central Electricity Authority since 1951, will serve as a full-time member.

INCOME TAX: NOTES ON ALLOWANCES FOR INDUSTRIAL BUILDINGS

A revised edition of *Income Tax: Notes on allowances for industrial buildings* has been issued by the Board of Inland Revenue. The notes, which explain the main features of the system of income tax allowances in respect of industrial buildings, including the changes made by the Finance Act, 1956, are available for accountants at their local tax office.

AMERICAN AWARD FOR BRITISH ACCOUNTING STUDENT

A Thomas W. Doig Fellowship in Commerce has been awarded to Mr P. Helps, of London, to study industrial management at the School of Commerce, University of Wisconsin. Mr Helps graduated with the B.Sc.(Econ.) degree at the London School of Economics and passed the Final examination of the Institute in May.

THE PROFESSIONAL CLASSES' AID COUNCIL

The Council's report for the year ended March 31st, 1957, records that the Council's income reached a record figure, rising by £3,044 above last year's total to £21,597. The total expenditure amounted to £22,450 comprising £17,512 for relief of all the several kinds mentioned in the report, £3,492 for administration costs and £1,446 for other expenses, including appeals and publicity, rates and property repairs. The excess of expenditure over income was £853 which, with £400 drawn in from reserves, gave a deficit of £453.

During the year, 695 cases were dealt with, of which 331 received financial aid—forty-five more than in 1955-56. In addition to general assistance given in cases of distress, grants were made for the education of children and training of students and for additional help in the cases of elderly and infirm people.

The address of the Council, on which the Institute, the Society and the Association are represented, is 20 Campden Hill Square, London, W8.

INTERNATIONAL BUREAU OF FISCAL DOCUMENTATION

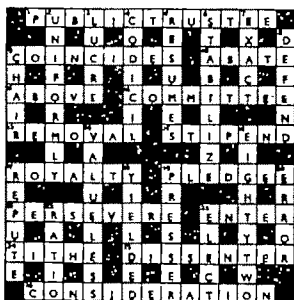
The annual report for 1956 of the International Bureau of Fiscal Documentation of Amsterdam, whose aim is to give independent and objective information about foreign and international taxation problems, records an eventful year.

The report is divided into three main sections, the first of which lists important tax events that occurred throughout the world during 1956; the second section is devoted to the nature of the problems and inquiries submitted to the Bureau, while the third is devoted to a survey of internal development within the organization.

The United Kingdom member of the Bureau's council of protection in 1957 is Mr Douglas A. Clarke, LL.B., F.C.A., a member of the Council of the Institute.

ACCOUNTANTS' CROSSWORD: SOLUTION

The solution to the 'Accountants' Crossword', compiled by Mr Kenneth Trickett, A.S.A.A., which appeared in last week's issue, is as follows:

**ORGANIZATION AND METHODS TRAINING COUNCIL**

A number of large companies have agreed to form and finance an organization to be called The Organization and Methods Training Council in order to pool their experience and to promote training in this subject. As a matter of convenience, it is proposed that the organization should take the form of a non-profit-making company, limited by guarantee and without share capital. The objects of the Council are to conduct an investigation into the basic training required for those in industry and commerce who carry out objective and analytical studies to increase effectiveness in organization; to run pilot training courses for such people; and to help selected teaching institutions to start regular training courses.

Sir Thomas Hutton, director of the British Productivity Council, has been appointed chairman, and an office has been established at 307 Cecil Chambers, 86 Strand, London, WC2. The Council intends to co-operate fully with all other organizations who are interested in the subject, but inquiries about courses cannot be accepted at the present time.

RATING RETURN FOR 1956-57

A return of rates and rateable values now issued by the Ministry of Housing and Local Government¹ shows that the average rate levied in England and Wales for 1956-57 was 15s 8d, compared with 22s 10d for 1955-56. This reduction in rates levied is in consequence of the new valuation lists which came into force on April 1st last year, and which showed substantial increases in rateable value.

The rateable value of all property at April 1st, 1956, was £629,444,000, compared with £361,818,000 at April 1st, 1955. Receipts of local authorities from rates in 1956-57 are provisionally estimated at £483 million compared with £402 million in 1955-56.

Detailed figures of rates from each local authority area show that the most highly rated urban authority during the year under review was Gelligaer U.D.C. in Glamorganshire, with a rate of 27s 7d in the £. Bournemouth, with a rate of 10s, was the lowest rated borough in England and Wales. The lowest rated urban district was Portslade-by-Sea, East Sussex, with a rate of 12s 6d.

ASSISTANT OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade has announced that as from July 29th Mr Rex George Goddard has been appointed an assistant official receiver in the bankruptcy (High Court) department, and that Mr Frederick Leonard Sage has been appointed assistant official receiver for the bankruptcy district of the County Courts of Aylesbury, Brentford, Chelmsford, Edmonton, Hertford, St Albans, Southend, Reading, Banbury, Newbury and Oxford.

¹ Rates and Rateable Values in England and Wales, 1956-57. H.M.S.O. 4s net.

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**KING GEORGE VI MEMORIAL
FELLOWSHIPS**

To commemorate the contribution to Anglo-American understanding made by His Late Majesty King George VI, the English-speaking Union of the United States has raised a sum of money to enable young British men and women to continue their scientific and technical education in American institutions. For the academic year 1958-59 a number of fellowships will be awarded in the following two categories: (1) Graduates of British universities who wish to take post-graduate courses at American universities. (2) Students of British technical colleges who wish to take courses at similar institutions in the United States.

In the United Kingdom the selection of candidates will be in the hands of a committee with headquarters at 37 Charles Street, Berkeley Square, London, W1.

PLACEMENT

A committee in New York will assign candidates to the institutions in the United States best suited to their needs, having due regard to the desirability of wide geographic distribution within the United States. Candidates who wish to be admitted to a particular institution may so indicate, but it must be understood that the committee is in no sense bound by the preferences expressed by applicants.

STIPEND

The stipend of each fellowship will be \$2,500, plus the cost of tuition (unless remitted by the host institution), and the minimum cost of travel between the candidate's home and the educational institution which he is to attend.

QUALIFICATIONS

All candidates must be: (a) Citizens of Great Britain or Northern Ireland, either by birth or by naturalization; (b) Holders of a British university degree, or candidates for such a degree in the summer of 1958 (Category 1); holders of a Higher National Certificate, or candidates for such a certificate in the summer of 1958 (Category 2); (c) Not less than 18 nor more than 30 on August 31st, 1958; (d) Unmarried.

When inquiring about the awards, students are asked to state the qualifications they have or expect to take; the British university or college at which they have studied; their proposed field of study in the United States; and their date of birth and nationality, and marital status.

Application forms and full particulars can be obtained from Mrs D. R. Dalton, B.A., King George VI Memorial Fellowships Committee, 37 Charles Street, Berkeley Square, London, W1. Completed forms, with all supporting documents, must be sent to Mrs Dalton not later than November 16th, 1957.

Qualified accountants and students who have the qualifications specified above are eligible for a fellowship if they are interested in business administration or personnel management.

ACCOUNTING HALL OF FAME

Professor Roy B. Kester, of Columbia University, and the late Professor Hermann C. Miller, of Ohio State University, have been elected to the Accounting Hall of Fame, which was established at Ohio State University in 1950 to honour famous accountants for their services to the accountancy profession in the United States.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 12TH, 1882

THE NORTHERN INSTITUTE OF CHARTERED
ACCOUNTANTS

The First General Meeting of the Northern Institute of Chartered Accountants was held at the offices of the Secretary (pro tem), St. Nicholas Chambers, Newcastle-on-Tyne, on Monday 31st July, at three o'clock in the afternoon. . . .

The Secretary (pro tem.) stated that out of a total of 17 Fellows in the two counties, 16 had agreed to join the Institute and conform to its rules and regulations, and out of a total of 21 Associates, 14 had agreed to join.

The names of those gentlemen who had agreed to become members were read to the meeting.

The Secretary (pro tem.) informed the meeting that he had received intimations from one or two influential accountants regretting their inability to attend.

The rules and regulations were carefully considered by the meeting, and certain alterations suggested by the Committee were adopted.

The election of Officers and Council was then proceeded with, and the following gentlemen were unanimously elected by the meeting:—

President—Mr. T. Y. Strachan, Newcastle.

Vice-President—Frederick R. Goddard, Newcastle.

Secretary and Treasurer—Thomas Bowden, Newcastle.

Council—R. H. Holmes, Newcastle; G. B. Monkhouse, Newcastle; R. Ormond, Newcastle; John Robinson, Stockton; H. Rawlings, Sunderland; T. C. Squance, Sunderland; J. M. Winter, Newcastle.

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PENSION SCHEME FOR CHARTERED ACCOUNTANTS' EMPLOYEES

RECENTLY we have welcomed the announcements by the Institutes of Chartered Accountants in England and Wales and of Scotland of plans for retirement benefits for their self-employed members. The English body has now announced details of a scheme under which it is intended to provide pensions for the employees of firms which have among their partners at least one member of that body.

A trust fund has been set up under the same trustee company as in the case of CARBS and Inland Revenue approval has been obtained under Section 379 of the Income Tax Act, 1952. The benefits will not be insured with any life office but the assets of the fund will be invested under the direction of the trustees, presumably over a wide range of securities.

The aim of the scheme is to provide that pensions for the members of the staffs of chartered accountants shall not be forfeited if they change their employment within the profession. Moreover, it has long been recognized that many of the smaller firms have staffs too small to permit the establishment of separate superannuation funds, and therefore have been at a considerable disadvantage in recruiting and retaining staff.

The rules have been drawn up to be as flexible as is possible within the framework of a single scheme. When an employer joins the scheme he completes an agreement for participation under which he determines the conditions of eligibility for his employees both as to age and probationary service. Contributions are normally 5 per cent of the scheme salary, which is calculated from the member's full salary at the beginning of each scheme year, by deduction of a constant amount which is settled in the participation agreement. Thus an employer can regulate his commitments under the scheme by choosing a deduction of an appropriate size or, if he prefers, by paying contributions on full salary.

There are two reasons why the employer is permitted to control his contributions by choice of the scheme salary deduction rather than by varying the proportion of salary contributed. Firstly, it is pointed out that this method will permit an approximate allowance to be made in the employee's total pension for the benefits of the National Insurance scheme. Secondly, if employers were allowed to vary the proportion of scheme salary contributed considerable complication would be introduced in the provision

of a death benefit equal to one year's scheme salary mentioned below.

The pension available for the member commences from age 65 for males and 60 for females. The amount is determined by the amounts of contribution paid, each contribution being applied to secure pension according to the tables in the rules.

There are in fact three of these tables, the difference in the pensions secured by each of them being due to the provision of death benefit.

On death before pension age there is a return of the contributions paid by the member together with interest at $2\frac{1}{2}$ per cent per annum. In addition there is a death benefit in service equal to one year's scheme salary. The latter is secured by the employer's contributions. In the case of small staffs or voluntary membership, medical evidence may be required before this benefit is granted.

There is provision for employers who wish to recognize service already rendered by their employees to pay additional contributions which are applied to purchase pension. These contributions carry no benefit on death. Similarly, if an employee wishes to pay special contributions to increase his pension he is permitted to do so, but he must undertake to maintain a constant rate of contribution for this purpose which may not be increased within ten years of pension age. The employee must not contribute more than 15 per cent of his salary in total.

It is expected that certain employers will consider that the death benefit of one year's scheme salary is inadequate and they can increase this by arrangement with the scheme secretaries.

The scheme contains special provisions for decrease or increase of pension upon early or late retirement so that there is no compulsion for members to retire at normal pension age.

It is provided that if a member leaves the service of his participating employer and joins the service of another such firm within the stipulated period of thirty-one days he may continue his membership of the scheme. He would remain entitled to the pension secured by his contributions in his former employment. Also, provided that he had completed a qualifying number of years in the service of the former employer, and his change of employment was not the result of misconduct, he would receive the benefit of the employer's contributions. The

necessary number of years would be defined by the participation agreement of the former employer but would not exceed five years.

If a member resigns from his employment with a participating firm and does not move to another firm within the profession, or moves to a firm which does not participate in the scheme, he would be able to retain paid-up rights in the fund based on his own contributions and, under the same conditions as described above, the employer's contributions. The death benefit of one year's scheme salary would not be payable. Alternatively, if the amount of his accumulated contributions does not exceed £100 he would be able to take a refund, but in this case he would forfeit the right to the employer's contributions.

In all cases where a member forfeits the right to the benefit of the employer's contributions the employer retains a credit in the fund which may be used for the payment of his contributions up to five years after the date of the creation of the credit.

The explanatory booklet remarks that special arrangements may be made for the absorption of existing pension funds. It is understood that a number of employers have felt that their present schemes were unsatisfactory because of the forfeiture of rights when members change their employment. Moreover, many firms have in force schemes which do not give forms of benefit consistent with modern practice, or secure the best tax treatment possible under present legislation.

It is visualized that firms may either decide to cease contributions under existing schemes, making the benefits paid-up or, in suitable cases, closing the funds by transfer of assets to the new scheme, so that their employees can draw the whole of their pension from the same source.

The Institute has appointed the same scheme secretaries as are responsible for the administration of CARBS (Messrs Bacon & Woodrow (Actuaries), of 8 Boston Avenue, Southend-on-Sea, Essex.).

We feel that the introduction of the scheme marks a big step forward in the progress of superannuation amongst the firms of chartered accountants and we congratulate the Institute upon its formation. The success of the scheme will depend upon the number of firms who decide to participate, so extending the field over which full transferability of pension rights is made possible.

THE PAY AND PRICES COUNCIL

THE announcement on August 13th of the names of the members of the impartial Council on Prices, Productivity and Incomes has, on the whole, been well received. The chairman, LORD JUSTICE COHEN, P.C., has recently had much experience in the economic field, specifically as the first chairman of the Royal Commission on Taxation. SIR HAROLD HOWITT, G.B.R., D.S.O., M.C., D.C.L., F.C.A., a Past President of The Institute of Chartered Accountants in England and Wales, served on the recent inquiry into engineering and shipbuilding earnings, and SIR DENNIS ROBERTSON, C.M.G., is a leading independent economist.

The fact that the members have been chosen from the professions removes any risk of the charge that they represent either employers or labour or that their conclusions will be reached as a result of a political bargain instead of arising from the facts. Perhaps the only criticism is that of the absence of younger men (all the members are aged between 67 and 70).

The Council will decide its own procedure and make its own arrangements for staffing, and its terms of reference, which were announced by MR THORNEYCROFT in the Commons debate on July 25th, are as follows:

'Having regard to the desirability of full employment and increasing standards of life based on expanding production and reasonable stability of prices to keep under review changes in prices, productivity and the level of incomes (including wages, salaries and profits) and to report thereon from time to time.'

The Council will therefore not be concerned with arbitration and will be in no sense a wage court. Its function will be to inform the public of the facts underlying the present inflation and it has been decided that the Council's reports will not be made to any Minister but will be made generally available to the public. The Council will not have compulsory powers to call witnesses, but will invite anyone it wishes to appear before it and will be provided by the Government with all the information which is within its power to give.

The success of the Council will depend primarily on its success in securing the respect and goodwill of the trade unions, and specifically

of their members as opposed to their leaders. The latter have expressed considerable anxiety regarding the functions of the Council and are clearly afraid that it will tend to emphasize the effect of wage increases as causes of inflation while ignoring other factors.

It is clearly undesirable at this stage to attempt to prejudge the sort of conclusions which the Council is likely to reach. There is, however, clearly some rate of increase in general incomes including wages, which can be justified by increases in productivity without resulting in inflation. If this rate of increase is found to be, say, 3 per cent, it may be hoped that such a conclusion by the Council will be accepted not only by the unions but also by employers, the nationalized industries and courts of inquiry into wage increases.

The outstanding feature of the economic situation today is the power wielded by the trade unions, and the principal question determining the country's economic future is whether this power will in general be exercised for the benefit of the country as a whole or for that of purely sectional interests. The majority of employers and trade union leaders at the present time are well aware that excessive wage increases must lead to inflation, but without the backing of informed public opinion they seem to be unable to resist specific wage demands, many of which may appear to have some justification if considered in isolation without regard to the economy as a whole. The setting up of the Council will prove to be fully justified if it results in creating such a body of informed public opinion. In view of the preponderance of wages in the national income as a whole, the main difficulty facing the Council is likely to be that of giving due weight to the influence of wage increases without inviting the political charge that this factor is being unduly stressed. In the past, however, it has generally proved in this country that whatever section of the population has been in power, policies have been framed primarily with regard to the national interest and it may be hoped that this will continue to be the case, provided the facts can be fairly stated in such a way as to command majority support.

THE FINANCE ACT, 1957 — II

TELEVISION DUTY

PARALLEL with the new narrow-based structure of entertainment tax, provision is made by Section 2 of the Act for an excise duty at a standard rate of £1 per annum on television licences. No television licence issued after the beginning of this month will be valid unless the appropriate television duty has been paid (Section 2 (1), (11)). Where the television licence is of a type designed to authorize the installation and use of television reception apparatus in rooms 'let or available for letting' as living-rooms or bedrooms to guests or boarders, television duty is to be charged on the licence at a yearly rate equal to the aggregate duty at the standard rate on separate licences for the premises and for each of the rooms (Section 2 (2)). This is a somewhat slipshod piece of drafting. The object obviously is to levy plural duties on hotels and boarding and apartment houses which provide their guests and boarders with television. But such guests and boarders are not normally tenants, in the strict sense, of their rooms; they are mere licensees. Accordingly the use of the word 'let' in the Act is inappropriate.

There is similar provision, in the same subsection, for plural duties where the licence authorizes apparatus to be installed and used in more than one place; and an exemption from plural duties where the post office regulations do not prescribe fees for the licence, or would not prescribe fees if the apparatus was to be installed in a single place.

If the licence is not within subsection (2) and the licence fee (i.e. the fee payable to the Postmaster-General) is not prescribed by post office regulations (made by him under Section 2 of the Wireless Telegraphy Act, 1949) the standard rate of £1 duty does not apply. Instead the duty is to be such as to bear the same proportion to the licence fee as the standard rate bears to the licence fee prescribed by post office regulations (Section 2 (3)). Where no licence fee is payable at all, Section 2 does not in any case apply (Section 2 (9)).

The £1 standard rate applies to a licence for one year. A licence for a period other than a year is charged to duty at 1s 8d a month. If a licence

is issued for a longer or shorter period than the normal, with payment of the normal licence fee, the duty is to be charged by reference to the normal, rather than the actual, period (Section 2 (4)). Where a new licence is issued on the surrender of an unexpired one and the fee is reduced under post office regulations, a proportionate reduction is to be made in the television duty (Section 2 (5)). Where an unexpired licence is surrendered but Section 2 (5) does not apply, Section 2 (6) provides for a refund of duty at one-twelfth the yearly rate for each complete month unexpired. No duty is to be charged on a licence issued in place of a licence lost or destroyed, but if such duty-free licence is surrendered before expiration, the provisions for reduction or repayment of duty apply as though the original was being surrendered (Section 2 (7)).

Although television duty is an excise duty, its collection and any refunds are in the hands of the Postmaster-General. However, the sums collected are to be paid to the general account of the Customs and Excise department at the Bank of England (Section 2 (8)). Section 2 applies to any licence issued in Great Britain under Section 1 of the Wireless Telegraphy Act, 1949, being a licence of a type designed wholly or partly for apparatus which is to be used primarily for receiving television broadcast programmes, but not apparatus used primarily with a view to rebroadcasting or relaying those programmes 'by wire or by wireless' (Section 2 (9)).

The yield from the new duty is expected to make up for the fall in the amount of entertainment tax charged on cinemas.

Conclusion

Sections 3 to 7 of the Act deal with minor customs and excise matters. Section 5 and the Second Schedule provide for a simplification in the procedure for determining duty and drawback on composite goods, which, it is hoped, will save some £25,000 a year in administrative costs, without affecting the total yield of duty.

We have already discussed the other provisions of the Act during its passage through Parliament.

QUALITY CONTROL

ALTHOUGH statistical quality control may not come within the direct purview of accounting for management, it certainly cannot be ignored by the accountant. The statistical techniques designed to control quality prior to final inspection, and to limit, by the adoption of sampling schemes, the amount of effort devoted to inspection, are now fairly widely understood and operated in industry. Nevertheless, the recent publication, by the British Productivity Council, of two pamphlets¹ on the subject is to be commended.

The first of these deals briefly with the aims and basic principles of quality control, its advantages to management, and the steps necessary to install and operate successfully a system of quality control. Essentially, quality control recognizes that machines cannot turn out parts that are exactly interchangeable; variability is inherent in each and every process, even though the process is working as intended. However, the frequency and degree of chance or inherent variability follows a well-defined pattern and any variations outside this pattern can be regarded as non-inherent and therefore defects which may have been caused through faulty machine-setting, worn machine parts, poor material, and so on. But it is not necessary to examine every part that comes off the machine, or all the products of a particular process, in order to discover departures from the normal pattern. Small samples, if drawn in a scientific way, can yield a useful and reliable assessment of the characteristics of a much larger number. If, therefore, the samples selected for inspection show that variations outside the calculated or approved limits are occurring, appropriate action can be taken to bring the process under control once more. There must, of course, be no delay between the production and the inspection of the samples, and between the discovery that defects are occurring and the setting in motion of remedial measures.

The pamphlet gives the opinion that if quality control is to have the best chance of success it must receive managerial encouragement and it may need the services of an engineer well trained

in statistical techniques to install a scheme and instruct foremen and operatives in its operation. A number of reference books and pamphlets given over to a study of quality control are named, and the existence of technical college courses on the subject is commented upon. The point is made that the principles of sampling and quality control can be employed over a much greater range of products and processes, and by a much larger number of small firms than is generally imagined. Evidence of this is to be found in the second of the two pamphlets.

In this second booklet, fourteen named firms belonging to thirteen different industries give an account of the operation of quality control schemes within their works. The industries covered are aircraft production, brewing, brick-making, chocolate, electrical accessories, footwear, hosiery, needles, paper manufacture, weighing machinery, steel, switchgear and television. The wide variety of industries covered indicates the range and flexibility of quality control methods. Some of the firms have been operating schemes for a considerable number of years, in one instance, for about half a century. Others have introduced them within the last two or three years. All pay tribute to the worth-while nature of the schemes, some, indeed, are most enthusiastic. There is considerable evidence that quality control works best when the organized labour concerned is consulted at an early stage and when adequate training can be given both to foremen and operatives. A number of firms quote examples of the use of double sampling schemes to decide upon the acceptance or rejection of batches or lots of raw materials. These are not quite quality control schemes as usually understood, but they are equally useful and economical of inspection time and man-power.

If these firms were asked to summarize the advantages of quality control, their reply would probably be that it cuts costs by reducing the amount of inspection. It engenders pride in quality on the part of the operative, and it can provide a basis for incentive schemes based on quality of output. Consistently high quality of output creates confidence and goodwill amongst purchasers.

¹ B.P.C. Action Pamphlet No. 9: *The Control of Quality* and the B.P.C. Case Study No. 3: *Quality Control*. Price 1s 6d and 2s 6d respectively.

GROUP NOTICES AND PROFITS TAX

by T. J. SOPHIAN

CERTAIN important alterations were made by Section 30 of the Finance Act, 1956, to meet, *inter alia*, the decision in *Healex Investment Ltd v. C.I.R.* (34 A.T.C. 47; 35 T.C. 540) and this article sets out to review the position as to group notices for profits tax purposes.

The object of the service of a group notice by a principal company is to minimize the impact of profits tax, though very careful consideration has to be given to the question, since in certain circumstances the notice, instead of providing any advantages, may have an entirely opposite effect. The right to serve a group notice is conferred on a principal company by Section 22 of the Finance Act, 1937.

Service of Notice

Under that Section as amended by Section 42 (4) of the Finance Act, 1938, where a body corporate resident in the United Kingdom is a subsidiary of another such body, the latter, the principal company, may by written notice given to the Commissioners before the expiration of any chargeable accounting period of the subsidiary or within six months thereafter require that the provisions of subsection (2) of Section 22 should apply to the subsidiary as respects that period and all subsequent chargeable accounting periods throughout which it continues to be a subsidiary.

It will be observed, therefore, that a principal company may give the notice as regards any one or more of its subsidiaries, and that the notice once given is not required to apply to *all* subsidiaries.

Revocation of Notice

Further, the notice once given as regards a subsidiary cannot *now* be revoked, and it will operate in respect of all future chargeable accounting periods of the subsidiary, so long as the latter continues to remain a subsidiary of the principal company which served the notice.

It may be mentioned, however, in passing, that a limited power of revoking a group notice was conferred by Section 38 (5) of the Finance Act, 1947, in respect of notices served before that Act, that is up to July 1st, 1947.

For the meaning of a 'principal company' and a 'subsidiary company' one must refer to Section 42 (1) of the Finance Act, 1938. A 'subsidiary company' is there defined as a company of which not less than three-fourths of its ordinary share capital is owned by another company, the principal company, whether directly or through

another body corporate, or bodies corporate, or partly directly and partly through another body corporate or bodies corporate. Rules for determining this proportion of the ordinary share capital are set out in Part I of the Fourth Schedule to the Finance Act, 1938.

Effect of Group Notice

Where a group notice has been duly served by a principal in respect of a subsidiary, the consequences provided by subsection (4) of Section 22 of the Finance Act, 1937, will follow. The profits or losses arising in any chargeable accounting period to which the notice relates from the trade or business carried on by the subsidiary will be treated for the purposes of profits tax as if they were the profits and losses arising in the corresponding chargeable accounting period from the principal company's trade or business.

It is important, however, to note that profits and losses for the above purposes are the profits and losses which are treated as such for the purpose of profits tax; for it does not necessarily follow that what is a profit or a loss for income tax purposes must necessarily be a profit or a loss for profits tax purposes. The principles for determining what is a profit or a loss are not the same in each case.

Although income tax principles in general are to be applied in determining what is a profit or a loss for profits tax purposes, certain departures from the income tax code are expressly required to be made for profits tax purposes, by the profits tax legislation.

Instances of Profits Tax Deductions Not Allowed for Income Tax

To take the following examples of variations under income tax law: deductions may not be made in arriving at the profits, for interest, annuities or other annual payments, or for royalties or (in certain cases) rent, but for profits tax purposes, paragraph 4 of the Fourth Schedule of the Finance Act, 1937, requires these income tax rules to be ignored, subject to certain qualifications. These qualifications are that no deduction is to be made in respect of (a) dividends and distribution of profits; nor (b) of any interest, annuity or other annual payments paid to a person carrying on the trade or business, nor of any royalty or rent so paid.

For the purpose of paragraph (b) where the trade or business is carried on by a company and

the directors have a controlling interest, the directors, other than whole-time service directors, are deemed to be carrying on the trade or business.

Converse Case

Let us now examine a converse case of an instance of an allowable income tax deduction, which is not allowed for profits tax.

Where premises are occupied for the purposes of a trade, income tax law permits a deduction to be made in respect of the annual value of the property so occupied. The reason for this is that the occupying trader will already have paid tax under Schedule A in respect of the occupation. If, then, no deduction were allowed in respect of the annual value of the property, which in effect would be the counterpart of rent where the property was leased by the trader, tax would in effect be paid twice over. Firstly, there would be the tax paid under Schedule A, and secondly, there would be tax paid indirectly under Schedule D, because of the non-deduction of the annual value.

Had the property on the other hand been leased by the trader, the trader or occupier would pay the Schedule A tax, but then he would recoup himself by deducting the tax from the rent he paid.

As, however, for profits tax purposes, there is no corresponding profits tax or charge on the annual value of property, as there is for income tax, the income tax rule has no application, and accordingly no deduction may be made for annual value. Therefore, when adapting the income tax profits, the annual value deducted for the purposes of the income tax profits must be added back, in order to determine the profits for profits tax purposes.

The Abatement Factor

In considering the question whether a group notice should be served, consideration should be given to the abatement factor. Thus if both the principal company and its subsidiary company were entitled to an abatement, it might be disadvantageous to serve the notice, since if the notice was served, the profits of the subsidiary would be lumped with those of the principal and the total treated as one set of profits, with the result that no abatement would be claimable at all.

Let us illustrate the point, but for simplicity's sake, an example will be taken of a company whose profits do not include what is termed 'franked investment income', such as income received by the company directly by way of dividend or distribution of profits from another company whose profits would be liable to profits

tax. (See paragraph 7 (1) (a) and (b) of the Fourth Schedule to the Finance Act, 1937, for a definition of 'franked investment income'.)

Under Section 33 (2) (a) of the Finance Act, 1947, where the profits of the trade do not include any franked investment income, and exceed £2,000, but not £12,000, the profits are to be abated by one-fifth of the difference between the amount of the profits and £12,000. Thus if the profits amount to £5,000, the abatement would be: one-fifth of (£12,000 - £5,000) = £1,400. Therefore the net amount chargeable to profits tax would be £5,000 - £1,400 = £3,600.

Suppose now that the profits of the subsidiary amount to £5,000, so that the charge would be on a net amount of £3,600, and that the net profits of the principal company total £9,000. In this case the net amount chargeable in respect of the principal company would be

$$\frac{£9,000 - £12,000 - 9,000}{5}$$

i.e. £9,000 - £600 = £8,400.

If the principal company served a notice, the profits which would then be treated as a single profit would amount to £5,000 (net profits of subsidiary) + £9,000 (net profits of principal) = £14,000, so that no abatement relief could be obtained. In such circumstances it would not be an advantage to serve a group notice.

The Healex Investments Case

In the *Healex Investments* case, a principal company had given a group notice in 1948 in respect of a subsidiary. In 1952 the Special Commissioners made a surtax direction against the principal company for the years 1946-47, 1947-48, 1948-49. The result of the surtax direction was that profits tax ceased to be chargeable on the principal company by virtue of Section 31 (2) of the Finance Act, 1947, and the profits tax paid by the principal company in respect of the three years in question was refunded. The Revenue thereupon sought to charge the subsidiary to profits tax for the chargeable accounting periods 1947-48 and 1948-49.

It was held, however, that the effect of the group notice was to render the profits of the subsidiary company, the profits of the principal company, and as the principal company was not chargeable by virtue of the surtax direction, no profits tax at all was chargeable.

Section 30, Finance Act, 1956

To meet this decision, Section 30 of the Finance Act, 1956, was enacted. Under this section, a

group notice may not be given unless both principal and subsidiary are engaged in carrying on a trade, or were so engaged at the beginning of the chargeable accounting period specified in the notice as the first of the periods, in respect of which the notice is to have effect. Further, a group notice is not to continue in force after either principal or subsidiary has ceased to be so engaged, or to be resident in the United Kingdom.

The particular subsection, however, which overrules the *Healex* case is subsection (3).

Under that subsection, where, as respects a chargeable accounting period of a body corporate, there is in force a group notice given by it as a principal company or given in respect of it as a subsidiary company, but the body corporate is

exempted from profits tax by subsections (2) or (3) of Section 31 of the Finance Act, 1947, as the result of a surtax direction, then as respects that chargeable accounting period of the said body corporate, and as respects the corresponding chargeable accounting period of the other body corporate, whether principal company or subsidiary company, as the case might be, the profits and losses of the subsidiary will not be treated as those of the principal company. Further, the franked investment income and the gross relevant distributions of the subsidiary will not be included in the franked investment income and the gross relevant distributions, respectively, of the principal company under Section 38 (1) of the Finance Act, 1947.

AFRICAN COMMENTARY—VI

by ROBERT E. ELLMER, M.A.(Cantab.), A.C.A., A.C.I.S.

Senior Lecturer in Accountancy and Statistics at the Royal Technical College of East Africa, Nairobi, Kenya.

The Accountancy of Changing Price Levels

WRITING in the June issue of *The South African Accountant*, Professor J. Goudriaan, DR.SC.(ENG.)(DELFT.), considers the problem of accounting for changing price levels, commencing his article with a reference to the 'fantastic inflation' which took place in Germany during the period 1918-1923, when the price index jumped 10¹² times in the five years, giving an annual factor of about 250. The average annual factor lies between 1.05 and 1.10, 'but it should be realized that an average annual factor of, say, 1.07 doubles the price level in ten years, and quadruples it in twenty years. It takes four centuries to reach the same fantastic result as the Germans achieved in five years'.

Referring to the accounting implications of changing price levels, Professor Goudriaan describes techniques which will serve under conditions of rising prices, where replacement value will form the basis of all calculations. He states: 'The real problem at the moment is the development of simple, cheap, and sufficiently accurate techniques to pave the way for its practical application. These techniques have to be developed mainly for two different categories of assets; materials, stores, etc.', and what the writer calls 'paid assets', i.e. fixed assets.

Dealing with businesses in which the holding of stocks is a feature of the trading, Professor Goudriaan states 'it seems to be beyond all reason-

able doubt that the best method of introducing calculation on replacement value into the accounts is to use a system of standard prices, and to fix these standard prices for each period (say annually) in such a way that they represent a fair guess about the probable average price level during that period. In this approach, the price difference account becomes the invaluable tool for constantly checking the initial guess with actual development. This account is debited each time with the invoice value of a purchase, and at the same time credited with the quantity bought multiplied by the relevant standard price'.

Arguing his case for the introduction of price changes as an integral part of the accounting system, Professor Goudriaan envisages the price difference account as a signalling device by means of which a credit balance gives a clear indication that standard prices are higher than replacement prices, and a debit balance shows the converse.

With regard to the question of depreciation on fixed assets, Professor Goudriaan advocates that the calculation should be based on replacement costs, the latter being introduced as index numbers. He states, 'The book values are credited with depreciation based on purchase price, and the difference between depreciation calculated on replacement cost and calculated on purchase price should be carried in bulk to a reserve account for increased replacement cost of fixed assets.'

Taxation on United Kingdom - East African Partnerships

A decision of the Supreme Court in Nairobi was recently upheld in the Court of Appeal for Eastern Africa in connection with the view that the profits of an East African business operating in both the United Kingdom and East Africa were taxable in the latter place in respect of profits made in United Kingdom. Mr Bechgaard (Crown Counsel) said that the partnership was a Nairobi one, and that under the partnership agreement the business was carrying out work as commission agents in East Africa. The fact that there might be a liability to pay income tax in Britain did not prevent there being a parallel liability to East African tax. It was common for incomes to be taxable in more than one place.

Keeping Accounts in the English Language

Mr Vasey, the Kenya Minister for Finance, has stated that the introduction of legislation to make it compulsory in Kenya for account books and records to be written and submitted in English would be a matter for the Central Legislative Assembly. The Minister said he was aware that it would greatly assist the work of the income tax authorities if accounting records were kept in English. He had been advised that the Commissioner of Income Tax already had powers under the East African Income Tax (Management) Act to require a person appearing to be chargeable with tax to keep his books of account in English. This requirement was imposed where it was considered desirable.

Standard Receipts on Cheques

According to the *East African Standard*, banks in East Africa are to be invited by the Nairobi Chamber of Commerce to submit recommendations for the standardization of the manner in which cheques are endorsed and receipted. A motion to this effect was passed by the Chamber at a recent meeting. It was stated that the signing of printed receipts on the back of cheques could encourage income tax evasion.

A member of the Chamber of Commerce, who stated that so many methods of endorsing and receipting cheques were being used in East Africa that confusion was caused to both the banks and their clients, added:

'In my experience, it has always been advocated - particularly by professional firms in their clients' interest - that receipts should be printed on the reverse side of cheques. The reason for this usually is that many firms are forced to deal with traders

whose reputation is unfortunately not always of the highest standard.'

Oil Company Profits in East Africa

The general manager of a well-known group of oil companies has stated that the net profit of their East African installations in 1956 was fractionally over 5 per cent of their total investment in that area. The net return of this particular group over the past five years has been of the same order, and ever since they began trading in East Africa, the total net profit has been re-invested in the territories, together with a substantial amount of imported capital. An interesting reference is made in the general manager's report to the increased industrialization and mechanization which has taken place in East Africa since the Second World War, as reflected in the fact that the total consumption of petroleum fuels in 1956 was eleven times greater than in 1938.

Tax Collection in East Africa

Commenting upon the machinery for the collection of income tax in East Africa, the Commissioner of Income Tax recently referred to the greatly improved current situation as compared with 1952, when the investigation branch was inaugurated. Much of the success of the branch had been due to the policy of decentralization and a progressive increase in the quality of the Inland Revenue staff. Referring to the question of tax avoidance, the Commissioner stated that the East African Governments had already taken certain measures to counteract it. In one respect, however - the taxation of private companies - the measure taken had only been partially effective. It was sought to prevent individual traders from forming their businesses into companies for the sole purpose of avoiding surtax, by providing that a person who turned his business into a company, with less than a quarter of the voting power held by the public, would not be able to avoid surtax entirely, by failing to have the company declare dividends.

It was stipulated, accordingly, that where less than 60 per cent of the company's income was distributed by way of dividend, the additional sum necessary to bring the total up to 60 per cent should be deemed to be distributed. This allowed 40 per cent to remain free of surtax. Commenting upon this provision, however, the Commissioner stated: 'The effect of this section, coupled with the increasing incidence of tax, has been to encourage the formation of private companies (530 in 1956) undoubtedly with the main object of saving surtax.'

THE LAYOUT AND DESIGN OF ACCOUNTS—I

by E. J. NEWMAN, M.A., F.C.A.

Modern Developments

IT would be tempting, if one had the time and ability, especially in surroundings such as Christ Church, to reflect on the changes which have taken place in the presentation of accounting records from the clay tablets of Babylon to the modern accounts of public companies adorned with photographs of their property, products and personnel. However, such a review, if it were possible, would only serve to emphasize a development of which accountants are already well aware.

(2) Just as impressive is the development which has taken place in our own lifetime, though it may escape notice like so many of the trends of our own day unless forced on our attention. In 1940 there was published, under the title *Among the Balance Sheets*,¹ a selection of about thirty sets of published accounts which had been the subject of review in the pages of *The Accountant* during the previous few years, most of them relating to the years 1936 and 1937. A comparison of twenty of these with the most recent accounts of the companies concerned reveals startling changes. Twenty years ago all the profit and loss accounts were in debit and credit form and fifteen of them still preserved the now archaic symbols 'To' and 'By'. Eighteen out of twenty balance sheets were in horizontal and only two in vertical form. Two of the balance sheets actually contained the symbols 'To' and 'By', half of them had no classification of assets whatever and nine showed shillings and pence as well as pounds. The accounts of the same companies today show that 'To' and 'By', along with shillings and pence, have been relegated to limbo. All but four of the profit and loss accounts are now set out in vertical form and, so far as balance sheets are concerned, six out of twenty prefer the vertical to the horizontal method of presentation, while classification of assets has of course been forced even on the unwilling by the requirements of the Companies Act, 1948. Four of the companies show sales or gross profits and a summary of costs in the profit and loss account and

one interesting example has turned the two sides of the balance sheet round in American fashion.

(3) Equally striking as these changes in the form of the accounts themselves are the changes in the whole appearance of the reports of which the accounts are a part. These, in size and content, as well as in the quality of paper and print, can often only be likened to a first-class magazine. In their production, accountant and secretary, chairman and managing director, printer and photographer, all combine to present the shareholders (and probably a wider audience) with a document which is as attractive as it is interesting. It generally ranges from an informative speech by the chairman to a wealth of statistics presented graphically or pictorially, the whole being enlivened by the best technique of modern printing and the finest art of the photographer. Compared with these efforts of 1936 and 1937 seem more akin to the clay tablets of Babylon and, if twenty years have seen such changes, it may well be asked what the next twenty will bring forth.

(4) It is said that the Oxford University Press considers that there is something amiss if a scientific textbook does not require revision every five years. A young profession like accountancy must also consider that there is something amiss if there is no evidence of change in its methods and ideas. Courses such as these at Oxford contribute to this forward movement by providing the opportunity for the interchange of conservative and progressive ideas. In this context the subject of the layout and design of accounts is one which merits discussion. Putting it on no higher level, well-designed accounts are a form of advertising at which not even the most stringent disciplinary committee can cavil. Yet we are all too prone to neglect what is one of our best advertising media and to forget that the manner in which we present our work, whether in the form of accounts or of reports, is our shop window and as such should be dressed as skilfully and attractively as possible. Putting it on a less material level, it is the work which may well give us as much aesthetic satisfaction as we can hope for. As a symphony is to its composer, so the draft of a good legal document must be to the



Mr E. J. Newman

The first part of an address delivered on July 15th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

¹ Gee & Co (Publishers) Ltd.

lawyer and the presentation of a model set of accounts to the accountant.

GENERAL PRINCIPLES

The Object of Accounts

(5) Accounts aim to present in as clear and intelligible a manner as is possible in summary form the result of financial transactions over a period of time and the financial position at the end of that period. Though the purposes for which they are required vary considerably, the following general principles are common to the presentation of all accounts:

- (1) They must be clear and intelligible and calculated to attract the interest of those for whom they are intended;
- (2) They must be useful for the purpose for which they are designed;
- (3) They must have regard to any relevant statutory requirements or principles of common law and equity;
- (4) They must have regard to certain inherent limitations.

These are principles which affect the actual content of the accounts as much as their layout and design and it is impossible to consider the latter without some observations on the former. Any subsequent incursions into the field of content however are made with apologies to those who have so adequately covered that field in addresses at previous courses.

Clarity, Intelligibility and Attractiveness

(6) The clarity and intelligibility of accounts as well as their attractiveness depend on the judicious combination of a number of factors, including the following:

- (i) *A simple and logical layout.* This should be such as to enable a person untrained in accounting technique to follow the accounts without difficulty. It may demand a departure from the debit and credit form which is the end-product of double-entry book-keeping but has no particular validity so far as the presentation of final accounts is concerned. It also calls for careful consideration of the order in which items are presented, so that the reader may be led through the accounts in logical sequence, and the way in which they are set out, so that the eye may not be repelled by a crowded mass of words and figures.
- (ii) *The elimination of unimportant detail.* It is the application of this principle which has caused shillings and pence and the archaic forms 'To' and 'By' to disappear from most accounts. The aim should be to give only such information as is really important for the purpose for which the accounts are intended. On this there can be no question of standardization. Each case calls for consideration on its own merits and for a nicety of judgment as to what is and what is not important. Many accounts would

probably benefit from an intensive weeding process. For example, most balance sheets lose nothing by the merging of cash in hand with the bank balance and prepayments with sundry debtors where these items are unimportant in relation to the total of current assets.

- (iii) *The relegation of less important detail from the main body of the accounts to supporting schedules.* Here again there can be no question of standardization and each case must be treated on its own merits, calling for the exercise of judgment as to the relative importance of the various items, so as to distinguish between what is really essential and must appear in the main picture and what is less essential and may be relegated to the subsidiary picture. At the same time a balance must be maintained between the information left on the main accounts and that relegated to the supporting schedules. The latter have become so fashionable in recent years that sometimes the effect has been that they have overshadowed the main accounts to the extent that the wood cannot be seen for the trees. One recent experiment suffered from this so much that it was necessary to look twice before deciding which were the main figures. Supporting schedules, if they are to be effective, need as much care in layout and design as the main accounts.
- (iv) *The classification and grouping of related items.* It should be possible for the headings and totals of these to be seen at a glance so that significant ratios are highlighted. This development has been accelerated by the requirements of the Companies Act, 1948, but many sets of accounts to which those provisions do not apply would be improved by the application of the principle. It applies as much, if not more, to trading and profit and loss accounts as to balance sheets.
- (v) *The use of appropriate spacing, alignments, types and colours.* This is closely related to classification and grouping, since proper spacing and alignment and the use of varying types for headings and subheadings, totals and sub-totals, are necessary to throw the more important figures into proper relief. The importance of spacing cannot be exaggerated. Far too many accounts suffer from being overloaded and cramped and show lack of judgment on the part of those who design them as to how much the eye can readily assimilate from a single sheet of paper. The use with discrimination of different colours either of type or background may also assist the reader and make the accounts, not only more informative, but also more attractive and interesting. An accountant may be forgiven for being a little picky over these matters because the whole effect of his efforts at clarity may be

spoil by an injudicious selection of type or by more elementary faults in such simple matters as alignment. At the same time most accountants, whether they themselves are or are not sensitive to matters of detail in layout, will be quick to recognize the service which printers can render in this respect. Some printers have a specialist service and no doubt they have played a big part in the modern developments in company reports; others are limited in what they can or will do in this respect. For an effective production there must be an informed co-operation between accountant and printer.

- (vi) *The use of appropriate wording.* Descriptions must be short but at the same time not so short as to be ambiguous or to depend on technical terms. Words and phrases which add nothing significant to a description or which may be misunderstood should be avoided, as should the use without further definition of words such as 'capital' and 'value' which have more than one meaning.

To Whom Do We Look ?

(7) These general principles cannot be applied without regard to the persons for whom the accounts are intended. In some instances they will be well known to us personally; in other instances they will be an unknown body of shareholders. In either event there lurk behind those for whom the accounts are immediately intended the dim shadows of others who may be interested in them for a variety of reasons: bankers, stockbrokers, financial journalists, prospective investors and, to a degree which may well increase in years to come, employees, trade union officials, politicians and economists. It would be wrong to ignore their existence, but to the extent that some of them are well versed in the interpretation of accounts while to others this is a new and unexplored territory, the problem of presentation is made difficult. It is a matter of opinion whether the standard should be set by the lowest common denominator and accounts presented in a manner which may be understood by any tiro or whether the sights may be set a little higher. Whatever view we may hold on this, modern developments show an increasing tendency to woo the uninitiated.

The Purpose of Accounts

(8) Equally important as the persons for whom accounts are intended is the purpose for which they are designed. This thought confronts us not only with the broad distinction between accounts which are the record of stewardship and those which are designed to assist management, but also, so far as the latter are concerned, with the varying needs of different businesses. The accounts of stewardship required by the Companies Act, 1948, do fall within a fairly regular pattern, but the successful presentation of accounts for management demands a clear

appreciation of the activities and needs of each individual business and, while some degree of uniformity may be not only possible but also desirable in regard to businesses in the same industry so as to facilitate comparisons, it would be impossible to fit accounts for different industries into one pattern.

Legal Requirements

(9) The statutory provisions which affect the presentation of accounts, and in particular the Eighth Schedule to the Companies Act, 1948, have resulted in the balance sheets of most companies following a now familiar pattern. The overriding requirement of the Companies Act is that the accounts shall show a true and fair view and undoubtedly layout and design can contribute to or detract from such a view almost as much as the content of the accounts themselves. The classification of balance sheet items which is imposed by statute is only a minimum requirement and it is well understood that unusual items should not be forced into one or other of the recognized categories merely to comply with the letter of the law, if the result does not give a true and fair view. This touches closely the presentation of the profit and loss account where there are still many differences in treatment and room for more attention to the overriding requirement. It should not be overlooked that on occasion legal principles apart from statutory provisions may have a bearing on the form of accounts, e.g. the rules of equitable apportionment in executorship accounting.

The Limitation of Accounts

(10) Throughout all our efforts to present accounts which are clear, intelligible and interesting to those for whom they are intended, fulfil their purpose and satisfy any relevant statutory requirements, we must always be conscious of the limitations inherent in the accounts themselves. This is not the occasion for a discussion on accounting theory, but the accounting conventions must be kept in mind. Accounts relate either to a period of time or to the completion of a particular activity. When they relate to the completion of an activity, the limitations are not serious. When, as is more usual, they relate to a period of time and involve breaking down the results of activities spread over a long period into shorter periods, as by the preparation of annual accounts for a continuing business, the limitations cannot be ignored. They arise not only out of the need to make estimates which may involve faulty judgments, but also out of some uncertainty as to the principles which determine the basis on which certain of the charges to the revenue account should be computed. This uncertainty is of course seen most strikingly in regard to stock valuation and depreciation.

(11) One cannot help the reflection that we spend much time trying to improve the layout of accounts designed to give what in grand fashion is described as a true and fair view of the profit when nobody has yet produced a really satisfactory definition of profit.

These limitations need to be kept in mind so that accounts are never represented as something more than they are. For example, the description of fixed assets should never hint that the figures represent realizable value and the word 'value' is probably best eschewed. That there is a real danger of being misunderstood is shown by the remarks of Vaisey, J., which caused some alarm amongst accountants in 1949:

'I should have thought that the market value of a share quoted on the stock exchange is seriously affected by the balance sheets which are available for inspection. If you find such an under-valuation of a most important asset, of no less than £60,000, I should have thought that it threw a great deal of doubt on the sufficiency of the balance sheet as an estimate of value and also threw doubt on the market price of the shares. . . . There has been some lack of care in indicating to the shareholder through the medium of the balance sheet what the real value of the property was.'¹

PUBLISHED ACCOUNTS

Cause of Changes

(12) The stimulus for the changes which have taken place in the form of published accounts in the last twenty years has come from a number of directions. Undoubtedly the *Royal Mail Steam Packet Company* case in 1931 administered a shock both to accountants and to the investing public and from that time onwards increasing attention began to be paid to the form and content of published accounts. Members of the Institute played a prominent part in the developments in company accounting in the 1930s, bringing their influence to bear not only by writing and discussion, but also by example. A glance back to accounts of that time shows how much of what is now accepted as a *sine qua non* in layout and design owes its origin to the willingness of members of the Institute and others to experiment with new ideas and new forms. The efforts of individual members were fortified from 1942 onwards when the Institute itself began to issue a series of Recommendations on Accounting Principles shortly before the appointment of the Cohen Committee in 1943. Because of these developments the inclusion of a number of the Committee's recommendations on accounts in the Companies Act, 1948, to a large extent only codified what by then had become good accounting practice. Nevertheless nobody regards the passing of that Act as the end of the process of development and a study of published accounts makes it clear that progress is continuing and that there is

¹ See *The Accountant*, February 26th, 1949. But in the Court of Appeal (*Re Press Caps Ltd* [1949], Ch.D. 441), Somervell, L.J., restored the matter to its right perspective by saying:

'With respect I cannot myself regard this figure in the balance sheet as a valuation. It does not purport to be . . . this figure, in accordance with what is very common practice, does not appear in the balance sheet as a valuation of the property as at the date of the balance sheet, but as its cost less depreciation.'

room for more. Fears that accounts would be ossified by the Act and unable to meet the demands of a changing world have proved groundless. Moreover in that changing world there is sufficient interest in accounts on the part not only of shareholders but also of the financial press, economists, politicians and trade union leaders, to keep accountants on their toes.

Minimum Requirements Only

(13) There are however still many companies which circulate each year to their shareholders only the directors' report and a set of accounts complying with the minimum requirements of the Companies Act. These are frequently set out on a single sheet of paper folded for easy transmission through the post. They are generally printed on a single colour background and only one coloured ink is used for the wording and figures. The actual layout of the accounts and the manner of presenting the information may be beyond criticism, but it must be confessed that these documents lack something by way of attraction when compared with the colourful displays put out by some of the larger companies. If, as has already been suggested, attractiveness is one of the objectives to be had in mind, these companies might with advantage consider whether some variety of colour in the background and type of their accounts would not go at any rate part of the way towards arousing more interest in them. No doubt this would involve an increase in cost, but it would probably be accompanied by an enhancement of prestige.

Size of Accounts and Report

(14) Comment has already been made on the magazine-like productions now put out by many public companies. Many of these provide excellent examples of the judicious use of appropriate spacing, alignment, type and colour produced by an understanding partnership between printer and accountant. Sometimes enthusiasm outstrips judgment and a balance sheet looking like Joseph's coat is produced, but generally speaking coloured backgrounds are introduced with a nice restraint. Matters of this kind cannot be reduced to rules and must depend on the exercise of individual, and therefore to some extent differing, judgments. Like the cut of a coat or hang of a dress, what suits the taste of one will not satisfy that of another.

(15) The most popular size for these reports seems to be approximately 10 in. by 8 in. and the size of the sheets influences the layout of the accounts, but whatever the size, it should be one of the main objectives of presentation that neither the narrative nor the figures should be cramped. If therefore the size of the sheet is reduced, more information must be relegated to subsidiary schedules. As yet there seems to have been little in the way of experimenting with a size of report which is handier and can be slipped into the pocket. The reason for this may be that most of those who read accounts do not want to put them in their pockets or it may be that the main

influence in keeping the size large has been the space needed for the presentation of accounts, particularly the balance sheet, in the form at present most commonly used. If however it is sought to popularize these annual reports over a wider field, such as the company's employees, there may be room for some pioneering in the way of reducing their size. Such a move would probably be a good discipline for accountants because it calls for the weeding and pruning process which is always necessary to keep accounts in good trim.

Order of Accounts

(16) One noteworthy feature of the modern presentation of accounts is that the profit and loss account often precedes the balance sheet. This contrasts with what was common twenty years ago, when the balance sheet usually had precedence, and the change probably reflects an important development which has been taking place in the philosophy of accounting. The older approach to the question of the measurement of profit was that of valuation as typified in the judgment of Fletcher Moulton, L.J., in the *Spanish Prospecting* case in 1911 when he said:

"'Profits' implies a comparison between the state of a business at two specific dates, usually separated by an interval of a year. The fundamental meaning is the amount of gain made by the business during the year. This can only be ascertained by a comparison of the assets of the business at the two dates. For practical purposes these assets in calculating profits must be valued and not merely enumerated. . . . We start, therefore, with this fundamental definition of "profits", viz., if the total assets of the business at the two dates be compared, the increase which they show at the later date as compared with the earlier date (due allowance, of course, being made for any capital introduced into or taken out of the business in the meanwhile) represents in strictness the profits of the business during the period.' ([1911] 1 Ch. 92.)

This approach lays the primary emphasis on the balance sheet, but it is doubtful whether it represents the modern view. In recent years the profit and loss account has been brought into greater prominence by viewing the measurement of profit as achieved by setting outgoings against income, leaving the balance sheet as a statement of residuals rather than as a statement of values.¹ The practice of giving the profit and loss account precedence over the balance sheet correctly reflects this view and might be more widely adopted. As a corollary the order in which these two statements are generally referred to in the auditors' report should probably be reversed.

Profit and Loss Account

(17) The provisions of the Companies Act, 1948, relating to the profit and loss account undoubtedly constitute an advance on the 1929 Act which contained no requirements as to the content of that

account and did not specifically bring it within the compass of the auditors' report. Nevertheless the present position is hardly one for satisfaction. The profit and loss account required by the Act has been aptly if cynically dubbed 'the child of the company's desire to disclose as little as possible and the compulsion of the Companies Act to disclose certain items'. Some companies do go further than the Act requires and give an account beginning with a figure of sales or gross profit and deducting various costs in summary form, so leading to the final figure of profit or loss. As yet there seems to have been no very great demand for this information and there is still opposition to it from fear of disclosing too much to competitors and perhaps indeed to shareholders. Nevertheless a move in that direction may be discerned, not only in the cases already referred to, but also in the growing practice of disclosing figures of turnover as part of the statistics provided in addition to the accounts. It would not be surprising if in time the position were reached of making the profit and loss account a fuller and more logical document by disclosing in summary form how the final result has been arrived at by the deduction of outgoings from gross income.

(18) In the meantime a perusal of published accounts suggests that there is still much room for improvement even in presenting the bare minimum required by the 1948 Act. One frequently looks in vain for the following essential figures:

- (1) Profit for the year before taxation and before transfers to reserves or provisions for dividends;
- (2) Profit for the year after taxation;
- (3) The proposed disposal of the profit for the year by way of transfers to reserves, payment of dividends and retention in the business.

If these figures are to stand out clearly, the vertical method of presentation has distinct merits over the debit and credit form, which requires the account to be broken and a balance carried down at least twice. This no doubt is why clearly the vertical form is gaining favour, but there is not much merit in it if it is not used to bring out these figures. It is therefore surprising to find reputable companies presenting a profit and loss account in vertical form which begins with a figure described as trading profit, although it is nothing of the sort, and then proceeds to detail a conglomeration of items as various and unrelated as depreciation, loan interest and taxation, which are all added together and the total deducted from the opening figure to give a final balance.

(19) The fact that the Companies Act calls for the disclosure of certain items such as remuneration of directors, which must be deducted before arriving at what can properly be described as profit or trading profit, creates difficulty in the presentation of the profit and loss account. This difficulty is overcome in two main ways. One way is to start with a figure which is described as profit (sometimes as trading profit) 'before deducting the items enumerated

¹ See, for example, Mr G. O. May in *The Accountant*, October 18th, 1952.

below' and then items required by the Act to be disclosed are deducted so as to arrive at a figure of profit before taxation. This means that the account starts with a figure which is of no significance and which, if it is described as trading profit, may mislead. No doubt awareness of this difficulty is responsible for the variety of descriptions used for this particular item. Another solution of the problem is to begin the account with the figure of profit for the year before taxation and to show the items, whether of outgoings or income, required by the Act either inset or by way of note and not as an integral part of the account itself. If this is done, there should be no room for misunderstanding about the figure of profit. It also avoids cluttering up the account with items which, though not very material, must be shown to comply with the requirements of the Act. Whether a note or an inset is preferred can depend on the amount of space available.

(20) If accountants could achieve some uniformity in dealing with the problem referred to in the previous paragraph, it might have a beneficial effect on the reporting of company results in the financial Press. Looseness in the use of the phrase 'trading profit' may be alleged against accountants, but they are not the only sinners: it is heart-breaking to an accountant, when he has tried to show an unmistakable and undeniable figure of trading profit, to see his accounts mutilated by the financial Press and a figure described as trading profit which is nothing of the sort. It is sad that the 1948 Act, in trying to protect shareholders, has indirectly contributed to the present unhappy state of affairs by singling out particular items of expense for special attention.

(21) From the profit for the year there fall to be deducted the appropriate amounts for taxation, the basis of computation of which must of course be indicated as required by the Act. Every accountant is by now more than familiar with the tiresome problems created by the preceding year basis of income tax assessments. Various descriptions are used for the deduction in the profit and loss account and corresponding entries in the balance sheet. These frequently contain references to Schedule D and to the fiscal year of assessment, but not often to the date on which the tax becomes payable. It is suggested that to the layman this is the most significant item and is likely to mean more than the fact that the assessment is made under Schedule D. Profits tax does not of course give rise to the same difficulty, but it is perhaps surprising that so few companies have experimented with the possibility of splitting the profits tax liability into two parts so as to show that part which arises from the payment of a dividend as part of the cost of the dividend rather than as a charge against the profits of the year. No doubt there are complications in particular cases in making the necessary calculation, but there must be straightforward cases where the information would give a truer and fairer view. The lack of interest in this feature is particularly surprising when so much

care has been taken to deal with the problems created by initial and investment allowances.¹

(22) It is the practice of many companies to add to or deduct from the profit after taxation, any non-recurring items or adjustments to previous years' figures and also to add the balance of profit brought forward from the previous year. Probably no objection can be raised to bringing in the non-recurring items and the adjustments at this stage, but it is suggested that the balance of profit from the previous year should not be brought in until the proposed disposal of the profit for the current year has been shown, so as to make clear the extent to which the profit for the year is to be dealt with by way of distribution or retention. This information often cannot be gathered from accounts without doing additional figuring. No doubt it is true that, in deciding on the disposal, the balance brought forward is relevant, but it is considered that accounts should show quite clearly how the current year's dividends etc. have diminished or left a balance to augment the opening figure.

(23) It has become fashionable in recent years for directors to deal with part of the profit for the year by what is described as 'appropriation to reserve'. Sometimes these reserves are described as being for specific purposes, e.g. plant replacement reserve; sometimes the reserve has no special purpose assigned to it and is simply called 'General reserve'. The result in some companies has been to build up a series of reserves as long as a cricket team which appear on the balance sheet in addition to what is customarily described as 'balance of unappropriated profit'. All accountants know that this is only a book entry and that such reserves represent retained profit no different from the balance of unappropriated profit. Amongst laymen however there is an idea that in some way the procedure strengthens the finances of the company and that the reserves are represented by liquid assets, an idea which may have been fostered by the prominence given to reserves by the 1948 Act. Because of this misconception there may be room for reconsidering the whole problem along the lines of building up a single total of retained profit on the balance sheet instead of a series of reserves, which total would be increased or diminished each year as the distributions were less or more than the profit for the year. The words 'appropriated', 'unappropriated' and perhaps even 'reserve' could then disappear and emphasis be given to retained profit as one of the main sources of company finance.

(24) In addition to the actual layout, where the vertical form appears to have considerable advantages over the horizontal form, the words and phrases used to describe items in the profit and loss account must be chosen with care. Comment has already

¹ The Institute's Notes on the *Treatment of Profits Tax in Accounts* published in November 1953 [see *The Accountant*, November 14th, 1953] were not particularly favourable to the splitting of the liability and this may account for the apparent lack of interest.

been made on the use of the phrase 'trading profit' to describe a figure which, because at that stage various outgoings have not been deducted, is certainly not a trading profit. Another word of little real value is 'net'. A recent set of accounts used this word three times, first in relation to the trading profit for the year, then in relation to the profit for the year before taxation and then in relation to the profit for the year after taxation. One may be pardoned for wondering what it added by way of significance to any of these three phrases. At the other extreme are attempts to get away altogether from words such as 'profit', but it seems to be difficult, if indeed

it is desirable, to find suitable alternatives for these.

(25) Two interesting experiments with the profit and loss account should be noted. One is the use of the narrative form of account, but if the words and descriptions used in the normal form of account are free of ambiguity they can generally be followed by a layman. The other is the incorporation of the profit and loss account into the directors' report, provoked no doubt by the fact that there is often considerable repetition in these two documents, but open to the objection that it reverses the trend already approved of bringing the profit and loss account into increasing prominence. *(To be concluded.)*

Weekly Notes

Mr Charles W. Boyce retires from the Council of the Institute

The retirement of Mr Charles W. Boyce, C.B.E., F.C.A., from the Council of The Institute of Chartered



Accountants in England and Wales was received with much regret at the Council meeting held on August 7th, reported elsewhere in this issue.

Mr Boyce, who is a partner in the firm of Boyce, Welch & Co, Chartered Accountants, of Bradford and London, was elected to the Council

in 1935 and was President in 1951-52. He was admitted an Associate of the Institute in 1900 and was elected a Fellow in 1911. Mr Boyce has been a member of many Institute committees and has been chairman of the Applications Committee and of the Investigation Committee.

We are indebted to a Past President of the Institute for the following tribute:

As a Lancastrian and one who has been associated on the Council with Mr Charles W. Boyce for the last twenty years, I should like to pay tribute in memory of a friendship that has grown with the years and express appreciation of his many sterling qualities.

Charles Boyce was elected to the Council in 1935, succeeding the late Mr J. H. Blackburn (with whom he served articles) as representative of Bradford. He has served on many committees of the Institute and the measure of his colleagues' assessment of his character culminated in his election as President of the Institute for 1951-52 after serving as Vice-President for the previous year.

Not only did he serve the profession but he was prominent in other spheres - such as his membership of the Council of the Bradford Chamber of Commerce

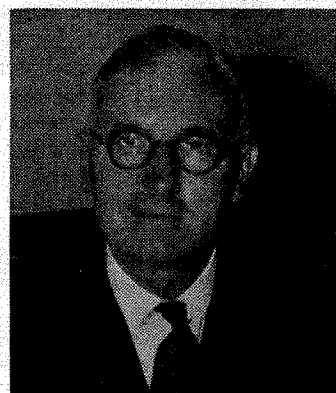
over many years and his appointment in 1939 as joint director of finance of the Wool Control, which office he held until the Control closed in 1949 and for his work he was awarded the C.B.E.

In everything he did he typified the best qualities of the county of his origin - shrewdness in judgment, trustworthiness, tenacity, a sense of humour and a youthfulness that belied his years. He is assured of the good wishes and high regard of his colleagues.

New Members of the Council of the Institute

At the meeting of the Council held on August 7th, reported elsewhere in this issue, Mr John Godfrey,

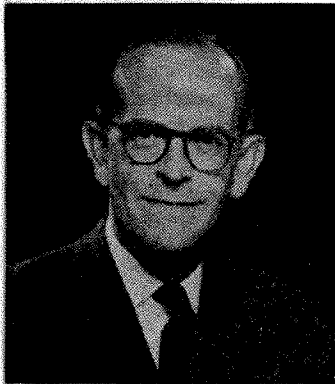
M.A., F.C.A., a partner in the firm of Deloitte, Plender, Griffiths & Co, of London, and Mr John Eric Talbot, F.C.A., a partner in the firm of Barton, Mayhew & Co, of London, were elected members of the Council of The Institute of Chartered Accountants in England and Wales.



Mr Godfrey, who was born in 1901, was educated at St Albans School and Pembroke College, Cambridge, of which he was an open mathematical scholar. In 1922 he graduated as a Wrangler, with special distinction, in Part II of the Mathematical tripos. He then joined the firm of Deloitte, Plender, Griffiths & Co, and in 1924 was articled to the late Mr Lionel Maltby. After passing the Intermediate and Final examinations with honours, Mr Godfrey was admitted an Associate of the Institute in 1927.

On qualifying, Mr Godfrey continued as a member of the staff of Deloitte, Plender, Griffiths & Co, and was admitted to partnership of that firm in 1942. He was elected a Fellow of the Institute in 1947.

Mr John Eric Talbot, F.C.A., who was born in 1908, was articled with the firm of Lancaster, King & Co,



of Birmingham. He was admitted an Associate of the Institute in 1931, and in June of that year he joined the firm of Barton, Mayhew & Co. He was admitted to partnership in that firm on October 1st, 1947, and was elected a Fellow of the Institute in 1952.

Mr Talbot, who is one of the recog-

nized experts in the profession on taxation, was co-opted as a member of the Taxation Sub-committee of the Taxation and Research Committee in 1949 and has read papers on taxation subjects at the Institute's summer schools. At the school in 1952, he gave a paper on 'Taxation: (1) Depreciation; (2) The excess profits levy' (reproduced in our issues of October 25th, 1952 and November 1st, 1952) and at the Institute's autumn meeting at Southport in 1955, he gave an address on 'Recent developments in taxation' (reproduced in our issues of October 22nd and 29th, 1955 and November 5th, 1955).

Mr Talbot is married and has two sons; his younger son qualified at the last Final examination of the Institute.

Suitability of a Principal's Practice for an Articled Clerk

At its meeting on August 7th, the Council of the Institute considered a case involving the suitability of a principal's practice for the purpose of taking an articled clerk. The Council has decided that the practice in question is not suitable in present circumstances for the taking of an articled clerk and has accordingly decided to exercise its powers under bye-law 50, under which the Council may in its absolute discretion refuse to register articles lodged for registration.

A full statement authorized for publication by the Council appears in the record of proceedings of the Council meeting on page 200 of this issue.

European Exchange Rates

One of the most important questions to be settled before the proposals for the European Common Market can be put into effect is that of European exchange rates and for some weeks there has been the need for devaluation of the French franc and upward adjustment of the value of the mark. Until last week it was generally expected that adjustment of exchange rates would be left until the International Monetary Fund meeting in September, but pressure

on the franc has in fact forced a partial devaluation in advance of the meeting.

The steps taken by the new French Finance Minister, which were approved by the International Monetary Fund in Washington, involve a surcharge of 20 per cent on all imports other than those of raw materials; a bonus to exporters of 20 per cent of the value of their sales abroad, and the establishment of a differential rate of exchange for tourists and other financial transactions equivalent to a 20 per cent depreciation of the franc. Apart from the heavy cost of military operations in North Africa, the French balance of payments crisis has arisen largely from the rapid expansion of industrial production in the last few years. Owing to the lack of indigenous raw materials this has resulted in a sharp rise in imports which has not been matched by a corresponding increase in exports.

The European Free Trade Area

The appointment of the Paymaster-General, Mr Reginald Maudling, to undertake the task of supervising and co-ordinating the Government's preparation for the forthcoming discussions between the United Kingdom and other countries concerning the establishment of a European free trade area should be particularly valuable in allaying fears in European countries that this country is not seriously interested in European free trade. When the project for the European common market and free trade area was first mooted there was strong support throughout Europe for the inclusion of the United Kingdom. In recent months, however, the opinion has been hardening that this country is aiming to secure all the advantages of association while avoiding the disadvantages. The food producing countries in particular are opposed to the British insistence that agriculture must be left out of the free trade area.

Some branches of British industry have tended to criticize the Government for moving too fast in relation to the free trade area without full investigation of what free trade will mean to them. While some industries must inevitably suffer there can be little doubt that the greater danger to the United Kingdom as a whole is that of being left outside what may well be a fairly high tariff area and of losing the advantages of the large home market which the free trade area will provide.

Surtax Directions: Chancellor's Umbrella

In our leading article on this subject last week, we said that it would be a gracious gesture to preserve the concession in relation to years up to 1956-57. Closer examination of the statement made by Mr Peter Thorneycroft reveals that the concession is only withdrawn in respect of accounts made up for periods ending after the date of the announcement (August 1st, 1957). It follows that in respect of accounts made up to an earlier date the original Parliamentary statements will still apply.

Finance and Commerce

Wall Street's weakness, and fears that partial devaluation of the franc may induce some general re-alignment in European currencies have led to dull conditions in the stock-markets. Signs of overproduction of some minerals and metals have also proved 'bearish' factors.

Aircraft Accounts

This week's reprint gives the accounts of Blackburn and General Aircraft Ltd, the company that builds the Beverley. The report gives pictures of this giant transport plane opposite a reproduction of the first Blackburn sales leaflet, which offers for £700 (1909 currency) a 35-40 h.p. Blackburn monoplane.

As with other aircraft concerns, interest has been diversified and there is now in the group, housing and civil engineering, the Green mower and road roller business and Jowett cars.

The company has Mr E. Turner, A.C.A., for its chairman and managing director and he tells shareholders that 'the accounts of many companies would take on a very different appearance if depreciation were charged on the basis of current rather than historical values; in fact, a significant proportion of the so-called "profits" would no longer exist'.

Mr Taylor points out that there are various means of making more realistic provision for depreciation in the accounts of future years, but as a first step, arrangements were made for all the group's fixed assets to be re-valued as at April 1st, 1957. The valuing of aerodrome buildings and runways is somewhat difficult, he says, owing to their specialized nature, and he expects the value placed on them will still be fairly conservative. Nevertheless, it looks as though the valuation will disclose a surplus almost equal to the issued share capital, and that if the current second-hand value of plant, machinery and equipment were substituted for historical values, the charge for depreciation would be almost double that provided in the present accounts. Mr Taylor doesn't say, however, which course will eventually be taken.

Profit Forecast

Mr Miller H. Brown, chairman of Brown & Tawse Ltd, iron and steel merchants and engineers, points out in his first statement since the company was made public, that the results shown are substantially better than the prospect given when the shares were put on the market. The Statement for Information required for a marketing of shares was published on April 3rd last, following the closing of the accounts for the year to March 31st.

For the first nine months of the year, the directors then said, all companies in the group showed a higher turnover, the average increase being 12½ per cent. Costs continued to rise but subject to unforeseen circumstances, the year's profits, after deducting minority interests, would not be less than the previous

year's figure of £253,587. This figure is not immediately identifiable in the figures for the year to March 1956 given as comparison in the accounts under review, but the chairman says it was actually exceeded by more than £100,000. Which brings us to a consideration of what is to be expected in a Statement for Information published for the grant of a stock exchange quotation. Surely a closer view than this, at least!

One would not expect accounts for the full year. The Statement was published only three days after March 31st, and Statements for Information take many weeks to prepare. But the board, we feel, should have known that the March 1956 profit was going to be left far behind. It should have been possible to have included in the Statement, profits for the half-year to September 30th, 1956, and even those for the first nine months.

One of the assurances given with Statements for Information is that the directors, to the best of their knowledge and belief, know of no other facts, the omission of which would make any statement in the advertisement misleading.

Money Market

The market syndicate's bid for Treasury bills was reduced by 5d to £99 os 6d on August 9th and the average rate rose to £3 17s 7.48d per cent. Applications totalled £375,855,000 and the offer of £220 million was £10 million under allotted. This week's offer is £210 million.

BLACKBURN AND GENERAL AIRCRAFT LIMITED

Notes to be read in Conjunction with the Annexed Accounts

	1957 £	1956 £
1. The following items have been taken into account in arriving at the Profit on Trading shown in the Consolidated Profit and Loss Account.		
Income—		
Provisions relating to previous years no longer required	8,063	—
Surplus on Sales of Fixed Assets	1,215	4,284
Income from Trade Investments (Gross, £600)	345	—
Charges—		
Depreciation	116,809	94,902
(Note.—No depreciation has been provided on Freehold Land.)		
Auditors' Remuneration—		
Blackburn and General Aircraft Limited	2,100	1,600
Subsidiary Companies	2,066	1,852
Emoluments of Directors of the Company—		
For services as Directors	6,379	6,228
For other services	30,749	29,093
Pension paid to Director as former Executive	1,000	1,000
Note.—Pension paid to Director as former Executive charged to provision for Supplementary Pensions	93	970
Provision for Works Life Assurance Scheme	7,302	7,598
2. Outstanding commitments for capital expenditure were approximately as follows:		
Blackburn and General Aircraft Limited	200,000	72,000
Subsidiary Companies	6,000	20,000
3. There are contingent liabilities:		
(a) in respect of uncalled capital on shares in a Trade Investment amounting to £90,000.		
(b) in respect of a Letter of Pledge given to the Bankers of a Subsidiary Company to secure the amount of that Subsidiary Company up to £500,000.		
4. The Group has been given Profits Tax Non-distribution Relief and accordingly a Distribution Charge might in certain circumstances become payable in the future.		

22 Park Place, Leeds, I.
27th June, 1957.

Consolidated Balance Sheet as at 31st March, 1957

[illegible]

Consolidated Profit and Loss Account for the Year ended 31st March, 1957

[illegible]

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

'The Cause and Cure of Inflation'

SIR, - I hope that others of your readers will respond to Mr Canning's inquiry in your issue of August 10th. My own inclination is to doubt very much whether there is any deliberate policy on the part of the Government to dishonour the national debt by stealth, nor would there be any economic justification for it to do so unless to relieve taxpayers at the higher end of the tax scale, who are themselves directly and indirectly large holders of Government Securities. I believe the real explanation to be confused economic thinking (the many different political voices with which economists speak) the failure of Governments to recognize how fundamental to all their policies the economic health of the nation is, and the human failing of trying to please everyone and ending by pleasing no one.

What above all disposes me against the belief that there is any wilful dishonesty on the part of the Government in this matter is that we have witnessed within the space of twenty-five years a complete reversal of Government attitudes on these matters. Just over twenty-five years ago substantial economies were put into effect by the National Government in order to 'save' an overvalued £. Some three million of our able-bodied men and women were then unemployed, the value of money was rising (prices were falling) and industry in many of our industrial centres was verging on collapse for lack of orders and the attendant lack of incentive to develop new capital. Yet the Government was worried about unemployment and believed that the action it was taking was the action most likely to relieve the situation in the long run.

As the result of the failure of these measures and as the result of the rapid improvement in employment brought about by the war and its aftermath, the idea has now grown up and become fixed in the Government's mind, that the one safeguard against the return to the depressed conditions of the 'thirties is an inflation-biased Budget. Faced with the alternatives of returning to the conditions of the 'thirties or of carrying on with things as they are, if these are the only alternatives, the Government is probably choosing the right one. But are they the only alternatives? Are they indeed alternatives? Will conditions remain as they are? And if they do, if we stand still, will the world stand still?

The decline of the influence of France and the many dangers which surround her should be a warning to those who believe that there is an easy way out of our difficulties. The post-war recovery of Germany and her rising economic and political influence should be an encouragement to those who believe that the sources of wealth lie in ourselves and in the soundness of our economic institutions. I

do not doubt that this is also the Government's view, but I do sincerely wish that it would give more practical support to it, by concentrating far more of its energies than it has done on implementing its 1951 electoral pledge, to 'put value back into money'.

With the economic knowledge at our disposal there is not the slightest reason why the £ should not be a respected currency both at home and abroad and the nation at the same time prosperous. In fact, the two things will go together, for inflation encourages not enterprise but financial artifice, not the productive but the improvident, not the honest but the dishonest. On such a foundation no self-respecting, prosperous and lasting society can be built.

In finding a solution, the encouragement of a little national pride in our self-reliance, strong but too often latent in us, will help a great deal. Do we like it to be suggested that our Government has rather cleverly found a way of contracting out of its obligations? Yet the charge cannot be escaped while inflation persists, nor effectively answered until inflation has been abolished.

Yours sincerely,
Cuckfield, Sussex. W. L. B. FAIRWEATHER.

Kangol Ltd Accounts

SIR, - In the reprint of Kangol's accounts to December 31st, 1956, in your issue of August 3rd, the balance sheet of Kangol Ltd shows an item 'formation expenses - £4,238', yet the consolidated balance sheet has no such item.

The possible explanation is that this item has been deducted from the capital reserve being 'excess of the net assets of the subsidiary companies at date of acquisition over the cost of the shares in the companies'. If this supposition is correct, then surely the description given to the capital reserve is incorrect.

I should be very interested to know the answer and your readers' views on the correct treatment of such an item in consolidated accounts.

Yours faithfully,
London, W6. N. F. SHEARMAN, A.A.C.C.A.

Estate Duty

SIR, - I have read your article on the estate duty provisions of the Finance Bill (August 3rd issue) with interest. In passing, I hoped that the reference to subsection (10) and the statement that 'there can however be few cases of a man giving something away in which he has no interest' did not overlook the common case of a policy effected under the provisions of the Married Women's Property Act for the benefit of a wife or child. This case was referred to particularly by Sir Patrick Spens, the back-bencher, who moved the clause.

Yours faithfully,
R. W. BOSS, *Secretary*,
London, EC2. THE LIFE OFFICES' ASSOCIATION.

Inter-company Shareholdings

SIR, - 'Skein's' problem, as stated in your issue of August 3rd, is quite a complicated one - so much so that if it had been set in an examination I am sure students would have complained of its artificiality!

Its solution depends on the proportion in which the income (including dividends) of each of the three companies is to be divided amongst the other two companies, its ordinary shareholders, and fund D, and also on the proportion in which the income of

fund D is to be divided between companies A and B

The solution is straightforward mathematically but the formulae become rather complicated if symbols are used throughout. The following method of solution is based on illustrative figures (all of whose counterparts are known in the actual case) the only unknown quantities being a, b and c, the income from dividends of companies A, B and C respectively. O stands for 'others', the ordinary shareholders of the companies.

		Trading income	Income from dividends	A	B	C	D	O
Company A	..	£12,000	a	—	·30	·20	·10	·40
Company B	..	18,000	b	·25	—	·10	·15	·50
Company C	..	10,000	c	·10	·30	—	—	·60
Fund D	..	—	?	·80	·20	—	—	—
		£40,000						

Fund D's income, all from dividends in A and B

$$= \cdot 10 (12,000 + a) + \cdot 15 (18,000 + b) \\ = 3,900 + \cdot 10a + \cdot 15b$$

Company A's income from dividends alone = a

$$= \cdot 25 (18,000 + b) + \cdot 10 (10,000 + c) + \cdot 80 (3,900 + \cdot 10a + \cdot 15b) \\ = 8,620 + \cdot 37b + \cdot 10c + \cdot 08a$$

$$\text{Thus } \cdot 92a - \cdot 37b - \cdot 10c = 8,620 \quad \dots \quad (1)$$

Company B's income from dividends alone = b

$$= \cdot 30 (12,000 + a) + \cdot 30 (10,000 + c) + \cdot 20 (3,900 + \cdot 10a + \cdot 15b) \\ = 7,380 + \cdot 32a + \cdot 30c + \cdot 03b$$

$$\text{Thus } \cdot 32a - \cdot 97b + \cdot 30c = -7,380 \quad \dots \quad (2)$$

Company C's income from dividends alone = c

$$= \cdot 20 (12,000 + a) + \cdot 10 (18,000 + b) \\ = 4,200 + \cdot 20a + \cdot 10b$$

$$\text{Thus } \cdot 20a + \cdot 10b - c = -4,200 \quad \dots \quad (3)$$

From the three equations (1), (2) and (3), by the usual method of solving simultaneous equations, we arrive at the values:

$$\begin{aligned} a &= 16,791 \cdot 333 \text{ say } \text{£}16,791 \text{ 6s } 8d \\ b &= 15,979 \cdot 475 \text{ „ } 15,979 \text{ 9s } 6d \\ c &= 9,156 \cdot 214 \text{ „ } 9,156 \text{ 4s } 3d \end{aligned}$$

The above table can now be converted into the form of actual dividend, the first column being the total income including dividends, and the last column the 'real' income, redistributed amongst the 'real' shareholders of A, B and C. Fund D's income is calculated first:

	Total income		A		B		C		D		O
	£ s d		£ s d		£ s d		£ s d		£ s d		£ s
A	28,791 6 8		—		8,637 8 0		5,758 5 4		2,879 2 8		11,516 10
B	33,979 9 6		8,494 17 5		—		3,397 18 11		5,096 18 5		16,989 14
C	19,156 4 3		1,915 12 5		5,746 17 3		—		—		11,493 14
D	7,976 1 1		6,380 16 10		1,595 4 3		—		—		—
	£89,903 1 6		£16,791 6 8		£15,979 9 6		£9,156 4 3		£7,976 1 1		£40,000 0

Perhaps I should add that the results will only 'work out' as exactly as above if a, b and c are calculated in the first instance to at least three decimal places. Even then some adjustment of pence may be required.

Yours faithfully,
DABS.

SIR, - The answer to 'Skein's' query in your issue of August 3rd is simple. If one takes the three companies and trust fund and distributes the capital between the various parties and spreads the profit proportionately, the companies and group are:

	A Ltd	B Ltd	C Ltd	D
Of the capital				
A holds		Q	R	O
B holds	S		T	P
C holds	U	V		
D holds	M	N		
The outside share- holders hold	X	Y	Z	
Total capital	A	B	C	D
The profits of the com- panies	H	I	J	
The profits of the com- panies including the shares of the profits of the other companies	K	L	M	

Then the interests of the outside shareholders are as set out below:

$$\begin{aligned} \text{A LTD} &= \frac{X}{A} \times \left\{ H + \left(\frac{Q}{B} \times L \right) + \left(\frac{R}{C} \times M \right) + \left[\frac{O}{D} \times \left(\left(\frac{M}{A} \times K \right) + \left(\frac{N}{B} \times L \right) \right) \right] \right\} \\ &= \frac{X}{A} \times K \\ \text{B LTD} &= \frac{Y}{B} \times \left\{ I + \left(\frac{S}{A} \times K \right) + \left(\frac{T}{C} \times M \right) + \left[\frac{P}{D} \times \left(\left(\frac{M}{A} \times K \right) + \left(\frac{N}{B} \times L \right) \right) \right] \right\} \\ &= \frac{Y}{B} \times L \\ \text{C LTD} &= \frac{Z}{C} \times \left\{ J + \left(\frac{V}{B} \times L \right) + \left(\frac{U}{A} \times K \right) \right\} = \frac{Z}{C} \times M \end{aligned}$$

From the above formulae K, L and M can be found in terms of each other and of H, I and J which should be easily available.

Yours faithfully,

J. WALLACE MITCHELL, A.C.A.

Hove, Sussex.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, August 7th, 1957, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. H. Lawson, C.B.E., President, in the chair; Mr W. L. Barrows, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., J. Blakey, C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, W. S. Carrington, D. A. Clarke, E. C. Corton, C. Croxton-Smith, W. G. Densem, W. W. Fea, P. F. Granger, D. V. House, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs P. D. Irons, R. B. Leech, M.B.E., T.D., J. H. Mann, M.B.E., W. E. Parker, C.B.E., S. J. Pears, P. V. Roberts, L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, C. M. Strachan, O.B.E., G. L. C. Touche, A. D. Walker, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Resignation from Council

The Council received with much regret the resignation of Mr Charles William Boyce, C.B.E., F.C.A., from his membership of the Council. Mr Boyce had been a member of the Council since 1935 and was President in 1951-52.

Elections to the Council

Mr John Godfrey, M.A., F.C.A., London, and Mr John Eric Talbot, F.C.A., London, were elected as members of the Council to fill the vacancies caused by the resignations of Sir Harold Montague Barton, F.C.A., London, and Sir Bernhard Heymann Binder, F.C.A., London.

Re-admissions

Two applications for re-admission to membership were acceded to.

Examination Results - May 1956

The Examination Committee reported the results of the examinations in May 1957 as follows:

	Passed	Failed	Total
Preliminary	28	99	127
Intermediate	614	621	1,235
Final	455	521	976
	<u>1,097</u>	<u>1,241</u>	<u>2,338</u>

The following prizes and certificates of merit were awarded:

Intermediate

First Certificate of Merit, the Institute Prize and the Plender Prize for the Auditing paper

L. Baker (V. Sklar), London

Second Certificate of Merit, the Stephens Prize and the Plender Prize for the Taxation and Cost Accounting paper

B. L. Worth (F. R. Coad), London

Second Certificate of Merit

K. W. Jackson (P. F. Rogers), Liverpool

Fourth Certificate of Merit and the Tom Walton Prize

E. D. Quick (H. F. Shapland), Minehead

Fifth Certificate of Merit and the Flight-Lieutenant Dudley Hewitt, D.F.C., Prize

A. C. Webb (B. Keohane), Newport, Mon.

Sixth Certificate of Merit

T. Knowles (J. C. M. Williams), Swansea

Seventh Certificate of Merit

W. E. Gooch (A. S. H. Dicker), Great Yarmouth

J. E. H. Hamilton, (I. H. Howard) Bristol

Ninth Certificate of Merit

[S. W. Treadgold (H. E. Williams), Oxford

Tenth Certificate of Merit

J. R. Boswell (A. L. Blower), Wolverhampton

Eleventh Certificate of Merit

H. Dron (L. Whittaker), Canterbury

Twelfth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Limited Companies) paper

C. R. Godwin (R. R. Elliott), Ilford

*Twelfth Certificate of Merit*Miss B. H. Brooks (S. H. Brooks), Morpeth
P. A. S. De-Zaporowicz (O. E. Ames), London
A. Spieler (J. E. Fischer), Liverpool*Sixteenth Certificate of Merit*

P. A. Smith (J. W. Walkden), Northampton

Seventeenth Certificate of Merit, the Frederick Whinney Prize and the Plender Prize for the Book-keeping and Accounts (Partnership) paper

C. R. Mason (L. A. D. Winter), Truro

Eighteenth Certificate of Merit

G. Pringle (J. C. Smethers), London

Nineteenth Certificate of Merit

W. J. George (P. H. Strode), London

Twentieth Certificate of Merit

N. Butterworth (L. H. Clark), London

*Twenty-first Certificate of Merit*J. A. Barnes (H. E. Monson), London
G. Robinson (K. McN. Black), Matlock*Twenty-third Certificate of Merit*

D. T. G. Evans (C. H. March), Cardiff

Plender Prize for the Book-keeping and Accounts (Executorship) paper

A. I. Macgregor (L. P. Nicholls), London

Plender Prize for the General Commercial Knowledge paper

J. N. Clarke (H. M. Jones), London

Final*First Certificate of Merit, the Institute Prize, the W. B. Peat Medal and Prize, the William Quilter Prize (shared with one other), and the Plender Prize for the Advanced Accounting (Part I) paper*

J. Liversidge (A. F. Sergeant), Leeds

Second Certificate of Merit, the Walter Knox Scholarship and the Frederick Whinney Prize

J. M. L. Jaeger (E. D. Taylor), Leeds

Third Certificate of Merit

J. D. Hanson (S. Sutcliffe), Halifax

Fourth Certificate of Merit

R. S. Ransom (W. H. Mason), London

Fifth Certificate of Merit and the Plender Prizes for the Auditing and the English Law (Part I) papers

M. G. Varah (G. W. Roberts), Bradford

Sixth Certificate of Merit

F. M. Oddy (J. W. G. Mitchell), Bradford

The William Quilter Prize (shared with one other)

M. P. Kerrigan (A. H. Whalley), Leeds

The Plender Prize for the Advanced Accounting (Part II) paper

J. E. Townend (J. Hankinson), Hull

The Plender Prize for the Taxation paper

C. J. Sole (G. L. Aspell), Leicester

The Plender Prize for the General Financial Knowledge, Cost and Management Accounting paper

G. A. Brazel (J. O. Elphick), London

The Plender Prize for the English Law (Part II) paper

M. I. I. Khodair (I. C. Griffiths), Manchester

Exemption from the Intermediate Examination

Six applications under bye-law 85 (a) for exemption from the Intermediate examination by articled clerks who had produced evidence of having graduated by taking one of the degree courses approved by the Council under bye-law 62 were acceded to.

Suitability of Practice for Taking an Articled Clerk**REFUSAL TO REGISTER ARTICLES LODGED FOR REGISTRATION**

The Council has recently considered a case involving the suitability of a principal's practice for the purpose of taking an articled clerk. Under the prescribed provisions included in all articles the principal covenants:

'that to the best of his ability and power he will either personally or through his partner or partners or his senior assistants engage the articled clerk on such work and afford him such opportunities and experience as are necessary for the purpose of enabling the articled clerk to acquire the art and knowledge of a Chartered Accountant in practice as a public accountant'.

'that his professional practice as a public accountant is his main occupation and is suitable for the purpose of enabling him to perform the last-mentioned covenant'.

The Council considers that the practice in question is not suitable in present circumstances for the taking of an articled clerk and has accordingly decided to exercise its powers under bye-law 50 under which the Council may in its absolute discretion refuse to register articles lodged for registration.

Proposed Integration Scheme**QUOTA OF ARTICLED CLERKS. A PRELIMINARY STATEMENT**

Inquiries are being received from members as to whether they will be precluded from taking under articles persons to whom future vacancies have already been offered if, in order to give effect to the proposed scheme of integration with The Society of Incorporated Accountants, they shall have granted Institute articles after the effective date to clerks serving under Society articles or to bye-law candidates of the Society who were in their employment.

The Council has decided that, if the scheme becomes effective, it will not in ordinary circumstances refuse to register articles of clerkship *within the present permitted quota of two articled clerks* because a member shall after the effective date have granted Institute articles to clerks serving under Society articles or to bye-law candidates of the Society provided that such clerks or bye-law candidates were in his employment at August 7th, 1957, or first entered the profession and his employment after August 7th, 1957, and before the effective date.

The above-mentioned Society articled clerks and bye-law candidates will in effect be regarded as super-numerary to the present quota of *two* articled clerks.

Final Examination

One application under bye-law 86 from an articled clerk for permission to sit an earlier Final examination was acceded to.

Articled Clerks Engaging in Other Business

Two applications under bye-law 57 from articled clerks to engage during their service under articles in other business for the sole purpose and to the limited extent specified in the applications were acceded to.

Articled Clerks - Industrial Experience

Three applications under bye-law 58 (c) from articled clerks to spend a period not exceeding six months in an industrial or commercial organization during service under articles were acceded to.

Summer Course, Christ Church, Oxford

The Chairman of the Summer Course Committee reported on the proceedings at Christ Church, Oxford, from July 11th to 16th, 1957, and stated that the President had sent letters of appreciation to the three speakers, to the governing body of Christ Church and all others concerned with the conduct of the course. The Council decided that the programme and full text of the three addresses should be reprinted in the form of a combined booklet similar to those prepared for previous courses. Copies are now being printed and will be obtainable on application to the Secretary of the Institute, price 5s each, post free. An order form is being sent to all members of the Institute. Remittances should be sent with applications which will receive attention as soon as the books are delivered by the printers.

The Council has approved the holding of a similar course from Thursday, September 4th, to Tuesday, September 9th, 1958.

Certificates of Practice

The following twenty-two applications for certificates of practice from associates who have commenced to practise were acceded to:

Berman, Michael; 1951, A.C.A.; (M. Fenton & Co), 77 South Audley Street, London, W1.
Birkett, Michael John; 1956, A.C.A.; 17 Farringdon Street, Ludgate Circus, London, EC4.
Crump, John Victor; 1954, A.C.A.; (Evans, Smith, Boothroyd & Co), 99 Fenchurch Street, London, EC3, and at Dover.
Culley, Maurice Edwin; 1947, A.C.A.; († Felton & Co), 49 Newhall Street, Birmingham, 3.
Davis, Alfred Aaron; 1950, A.C.A.; (Stoy, Hayward & Co), 97 and 99 Park Street, London, W1.
Dodd, Walter Denis Wyn, B.A.; 1955, A.C.A.; (P. M. Dodd & Co), 31 Irwell Chambers, 4 Fazakerley Street, Liverpool, 3.
Felton, John Forrester; 1954, A.C.A.; († Felton & Co), 49 Newhall Street, Birmingham, 3.
Glover, Malcolm Norman; 1954, A.C.A.; 22 Shirley Avenue, Cheam, Surrey.
Greenwood, Hugh Gordon Powys, B.A.; 1954, A.C.A.; († Brown, Fleming & Murray), 4B Frederick's Place, Old Jewry, London, EC2.
Harper, Eric Barrington; 1924, A.C.A.; (Swanwick, Terras & Co), 64 Cross Street, Manchester, 2.
Hindle, John Robert; 1942, A.C.A.; 7 Greenway, Fulwood, Preston.
Jeffreys, John David; 1948, A.C.A.; (Frazer, Dargue & Co), Bank House, 28 The Broadway, Stratford, London, E15.
Lake, Philip John; 1951, A.C.A.; (Jarvis Barber & Sons), 17 North Church Street (P.O. Box 20), Sheffield, 1.
Lewis, John Foster; 1953, A.C.A.; (* Ransom, Harrison & Lewis), National Provincial Bank Chambers, 11 York Street, Sheffield, 1.
Mead, Gordon Ernest; 1951, A.C.A.; (* Wells Richardson & Co), Fargate House, Sheffield, 1.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

Firms not marked † or * are composed wholly of members of the Institute.

Phizackerley, Charles; 1947, A.C.A.; (Luckin & Sheldrake), Waterloo Chambers, and 68 London Road, Chelmsford, Essex, and at Braintree, Dunmow and Witham.

Seymour, George; 1953, A.C.A.; (Williams, Dyson, Jones & Co), (Frank Witting & Son) and (Carlton, Killby & Co), Liverpool House, 15/17 Eldon Street, London, EC2.

Shaw, Edward Joseph; 1937, A.C.A.; (Broderick, Boardman & Co), 71/75 Bradshawgate, Leigh, Lancs.

Silverman, Irving; 1957, A.C.A.; 38 Bancroft Avenue, East Finchley, London, N2.

Silverstein, Adrian; 1955, A.C.A.; 10 Kinnoull Mansions, Rowhill Road, London, E5.

Thurling, Maurice; 1955, A.C.A.; (R. W. Allott & Co), 21-23 Gateford Road, Worksop.

Vause, Alan Charles; 1954, A.C.A.; (Jones, Ross, Howell & Co), St Dunstan's Chambers, 10/11 Fetter Lane, London, EC4.

Elections to Fellowship

Fourteen applications from associates for election to fellowship under clause 6 of the supplemental Charter (bye-law 31) were acceded to.

A list of those who complete their fellowship before August 20th, will appear in *The Accountant* of August 24th.

Admission as Associates

Two applications for admission as associates under clause 5 of the supplemental Charter (bye-law 31) were acceded to.

Details of those who complete their membership before August 20th will appear in *The Accountant* of August 24th.

Registration of Articles

The Secretary reported the registration of articles of clerkship as follows:

	1957	1956
July	46	69
January to July	639	676

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Committee	Chairman	Vice-Chairman
Disciplinary	G. D. Shepherd	Sir S. H. Gillett
Examination	W. G. Campbell	P. F. Carpenter

Change of Name

The Secretary reported that the following change of name had been made in the Institute records:

Jones, William Caerwyn to Caerwyn Jones, William.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Fred Chantler, A.C.A., Blackpool.
 „ Keng Chee Eu, M.A., A.C.A., Singapore.
 „ William Lawrence Gibbard, A.C.A., Dunstable.
 „ Reginald Alfred Hodge, A.C.A., Thornton Heath.
 „ William Rupert Rice Kilroe, A.C.A., California.
 „ Alfred Henry Knight, F.C.A., Croydon.
 „ Albert Law, F.C.A., Northallerton.
 „ John Macdonald, F.C.A., Radlett, Herts.
 „ Edwin Albert Mercer, A.C.A., East Wittering.
 „ Herbert Montgomery, F.C.A., Manchester.
 „ Alexander William Morrison, A.C.A., Leeds.
 „ Howard Marriott Peacey, B.A., A.C.A., California.
 „ James Lewis Watchurst, A.C.A., Warrington.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 3rd, 1957.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Reginald Thompson, M.B.E., F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter, in that (a) he failed to pay to the Chartered Accountants Students' Society of North Lincolnshire the subscription for the year ended December 31st, 1956, payable by him in respect of the

membership of that Students' Society of his articulated clerk; (b) he failed to reply or take any action in response to six letters addressed to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Reginald Thompson, M.B.E., F.C.A., had been proved and the Committee ordered that Reginald Thompson, M.B.E., F.C.A., of Bank Buildings, 28 Hall Place, Spalding, Lincs, be reprimanded.

FINDING AND DECISION OF THE APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on August 6th, 1957.

The Appeal Committee heard an appeal against the Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that Edward Laycock Hope, A.C.A., was on February 26th, 1957, at Bow Street Magistrates Court convicted (a) as liquidator of a limited company on a charge of failing to send to the Registrar of Companies a statement with respect to the proceedings in and position of the liquidation of that company for the period ended September 3rd, 1956, contrary to Section 342 of the Companies Act, 1948; (b) as liquidator of another limited company on a charge of failing to send to the Registrar of Companies a statement with respect to the proceedings in and

position of the liquidation of the said company for the period ended September 25th, 1956, contrary to Section 342 of the Companies Act, 1948, so as to render himself liable to exclusion or suspension from membership of the Institute. The Appeal Committee affirmed the Finding of the Disciplinary Committee that the formal complaint against Edward Laycock Hope, A.C.A., had been proved under both headings and the Committee, having regard to the number of times Edward Laycock Hope had been convicted by a Civil Court for offences similar to those the subject of the formal complaint, affirmed the Decision of the Disciplinary Committee that Edward Laycock Hope of 20 Willow Street, Accrington, Lancashire, be excluded from membership of the Institute.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

- Book-keeping for Solicitors; by R. J. Carter, F.C.A. Second edition. 1957. (Butterworth, 27s 6d.)
- Business Organization and Company Formation in the Union of South Africa. (Standard Bank of South Africa, gratis.) 1957.
- Control Through Mechanized Accounting: Part I, statements on accounting practice No. 2. (Australian Society of Accountants.) Melbourne. 1957.
- Costing System for the Smaller Printing Business. (British Federation of Master Printers.) 1957. (B.F.M.P., 5s.)
- English Overseas Trade during the Centuries of Emergence; by G. D. Ramsay. 1957. (Macmillan, 30s.)
- An Executor's Accounts and the law relating thereto; by E. M. Taylor, F.C.A., S. C. Hough and O. Griffiths. Twelfth edition. 1957. (Textbooks, 27s 6d.)
- Farm Incomes in England and Wales, 1954-55: a report based on the farm management survey. (Ministry of Agriculture.) 1957. (H.M.S.O., 7s.)
- I am a Mathematician; by N. Wiener. 1957. (Gollancz, 21s.)
- Income and Wealth: series VI; edited by M. Gilbert and R. Stone. 1957. (Bowes & Bowes, 42s.)
- Life and other Contingencies; by P. F. Hooker and L. H. Longley-Cook. Two volumes. Cambridge. 1953. 1957. (C.U.P., 22s 6d; 20s.)
- Lloyd's of London: a study in individualism; by D. E. W. Gibb. 1957. (Macmillan, 25s.)
- Market Research and Scientific Distribution; by A. H. Davies and O. W. Palmer. 1957. (Blandford, 42s.)
- Meetings: the regulation of . . . meetings of companies . . . ; by F. D. Head. Sixth edition. 1957. (Pitman, 18s 6d.)
- The Mercantile Law of Scotland; by A. M'Neill and J. A. Lillie. Fifth edition, by J. A. Lillie. Edinburgh. 1946. (Greens, 30s.)
- Money Powers of Europe in the Nineteenth and Twentieth Centuries; by P. H. Emden. c. 1945. (Sampson Low, 8s 6d.)
- Operations Research: a basic approach. (American Management Association.) New York. 1956. (A.M.A., 30s.)
- Organization: the framework of management; by E. F. L. Brech. 1957. (Longmans, Green, 45s.)
- Outline of Work Study: Part I, introduction: Part II, method study; Part III, work measurement. (British Institute of Management.) 1957. (B.I.M., 3s 6d; 7s 6d; 12s 6d.)
- The Rent Acts, 1920-1957; by N. C. Abbey. 1957. (Eyre & Spottiswoode, 42s.)
- Russell on the Law of Arbitration; by F. Russell. Sixteenth edition, by T. A. B. White and A. Walton. 1957. (Stevens, 70s.)
- Scheduling of Petroleum Refinery Operations; by A. S. Manne. Cambridge, Mass. 1956. (Harvard University Press, 40s.)
- Statistics: a new approach; by W. A. Wallis and H. V. Roberts. 1957. (Methuen, 50s.)
- 25 Jahre Wirtschaftsprüfung; (Instituts der Wirtschaftsprüfer.) Dusseldorf. 1957. (Presented.)
- Work Sampling; by R. E. Heiland and W. J. Richardson. New York. 1957. (McGraw-Hill, 45s.)

Notes and Notices

PERSONAL

MESSRS JACKSON, PIXLEY & Co, Chartered Accountants, announce that they have entered into partnership in Australia, as from July 1st, 1957, with EDWIN V. NIXON & PARTNERS, Chartered Accountants (Australia), under the name of JACKSON, PIXLEY, NIXON & Co. The names of the resident partners in Australia and the address of the offices from which the practice will be carried on are as follows: Mr DONALD M. FERGUSON, F.C.A.(AUST.), 401 Collins Street, Melbourne; Mr B. F. McINERNEY, A.C.A.(AUST.), 133 Pitt Street, Sydney; Mr IAN M. GRANT, F.C.A.(AUST.), 239 Queen Street, Brisbane; Mr E. H. BURGESS, F.C.A.(AUST.), 61 Gawler Place, Adelaide; Mr R. H. STOWE, F.C.A.(AUST.), 8 The Esplanade, Perth. All resident partners are partners in EDWIN V. NIXON & PARTNERS and its associated partnerships throughout Australia.

MESSRS FREDK. B. SMART & Co, Chartered Accountants, of 22 Queen Street, London, EC4, announce that Mr HOWARD VIVIAN DAVIES, F.C.A., has been admitted into partnership as from July 1st, 1957.

MESSRS W. ROWLAND WALLER & Co, Chartered Accountants, of 18 Warrior Square, Southend-on-Sea, announce that Mr H. D. MILROY, F.C.A., retired from the firm on July 31st, 1957. The remaining partners will continue to practise, as heretofore, at the above address and at London and Sheerness. Mr MILROY will practise on his own account at 9 Weston Road, Southend-on-Sea.

PROFESSIONAL NOTES

Mr W. K. M. Slimmings, C.A., has been appointed chairman of the Development Areas Treasury Advisory Committee in succession to the late Mr A. B. Barrie. Mr Slimmings is a partner in the firm of Thomson McClintock & Co, Chartered Accountants.

Mr R. H. Dent, A.C.A., has been appointed a joint managing director of The Cape Asbestos Co Ltd.

Mr W. H. Harris, F.C.W.A., chief accountant of P. Wall & Sons (Ice Cream) Ltd, has been appointed planning officer of the company.

Mr J. H. E. Spink, B.COM., A.A.C.C.A., has joined the Park Royal headquarters of T. Wall & Sons (Ice Cream) Ltd, in charge of accounting matters relating to the company's four factories.

INLAND REVENUE APPOINTMENT

Mr Joseph Robert McKenzie Willis, a Commissioner of Inland Revenue, has been appointed a deputy chairman of the Board of Inland Revenue in succession to Sir Edward Herbert Ritson who is retiring from the public service on August 31st. Mr Alexander James Nichol Miller, an assistant secretary to the Board, has been appointed a Commissioner of Inland Revenue in succession to Mr Willis.

ACCOUNTANTS APPOINTED TO COMMITTEE ON EDUCATION FOR COMMERCE

Mr J. Clayton, A.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, and Mr E. V. Roberts, B.COM., A.C.A., Principal of Leeds College of Commerce, have been appointed as members of an advisory committee on further education for commerce by the National Advisory Council on Education for Industry and Commerce.

The committee will consider the provision made by local education authorities for further education for commerce at and above the level of ordinary national certificate and Intermediate professional examinations. It will report to the Minister of Education and will recommend what further steps should be taken to implement the commercial aspects of the policy announced in the White Paper on 'Technical Education'.

THE LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

MANAGEMENT ACCOUNTING COURSE

The Leeds, Bradford and District Society of Chartered Accountants has arranged to hold a second residential course on management accounting at Harrogate from November 22nd-24th; the first course took place in November 1955, also at Harrogate.

Papers will be given on 'Management accounting for the medium-sized business', by Mr Brian A. Maynard, M.A., A.C.A., a partner in the firm of Cooper Brothers & Co, Chartered Accountants, of London; 'Work study', by Mr C. J. Peyton, A.C.A., chief accountant of Fodens Ltd, commercial vehicle manufacturers, of Sandbach, Cheshire; and 'Standard costing', by Mr R. Richmond Mann, C.A., secretary and chief accountant of Parkland Manufacturing Co Ltd, of Bradford. After each paper there will be group discussions, which in turn will be followed by a general discussion among all members of the course.

Accommodation and meals will be provided at *The Hotel St George*, Harrogate, and the sessions will be held in the Harrogate Corporation Council Chamber in the municipal buildings adjoining the hotel. The course is open to all members of the Leeds and Bradford Society, but some vacancies will be reserved for members of other district societies.

The course fee is £6 15s and application forms - which must be returned not later than September 3rd - together with further information, may be obtained from Mr H. Anderson, F.C.A., Management Accounting Course, 26 Park Row, Leeds, 1.

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**SOUTH EASTERN SOCIETY OF
CHARTERED ACCOUNTANTS**

The South Eastern Society of Chartered Accountants has arranged to hold its eighth annual students' residential tuition course at the Royal Pavilion, Brighton, from September 16th-30th.

The success of previous courses has firmly established this annual event as an invaluable contribution to the educational facilities available to students. The course is divided into two sections - Final and Intermediate. Both sections have an interesting programme of lectures to be given mainly by lecturers from the principal accountancy correspondence schools.

The fee for the course is £3 15s 0d, and includes the course dinner and light refreshments between lectures. Arrangements for hotel accommodation can be made for students if desired, and a substantial grant is made to members of students' societies within the Society's area towards the cost of accommodation and travelling expenses. All students (whether within or outside the Society's area) wishing to attend the course should apply as soon as possible for registration forms and details to the Assistant Secretary, Mr T. T. Nash, A.C.A., 33 Lawrence Road, Hove.

**HOSPITAL FINANCE OFFICERS'
CONFERENCE**

The annual conference of the Association of Chief Financial Officers in the Hospital Service in England and Wales is to be held at the Connaught Rooms, Queensway, London, from November 14th-15th.

'The Hospital Service in Sweden' will be the subject of a paper by Mr Frederik Linden Rona, secretary of the Swedish Hospital Association, and Mr C. Montacute, LL.B., D.P.A., F.I.M.T.A., F.H.A., will give a paper on 'The contribution of financial administration to hospital management.'

**MANCHESTER AND LIVERPOOL
STUDENTS' RESIDENTIAL COURSES**

The joint tuition and education committees of the Manchester and Liverpool Societies of Chartered Accountants are holding their seventeenth joint residential courses for Intermediate and Final students at Burton Manor, Burton-in-Wirral, from Sunday, September 29th, to Friday, October 4th.

The courses are intended to give students - and especially those unable to attend the Saturday morning lectures - an opportunity of hearing lectures on the more important subjects covered by the examination syllabus, to enable them to discuss their problems with contemporaries and to have their unresolved problems further explained by the lecturers.

The courses are open to all students in the offices of members of the Institute within the areas of the Manchester and Liverpool Societies. Vacancies for the sixty places available will be allocated so far as possible equally between the two areas.

A comprehensive programme has been arranged and, as in previous years, the emphasis of the courses will be upon the group discussions following the lectures. The charge to students will be £9 9s, comprising £5 5s for board and accommodation and £4 4s for lectures.

Applications to attend should be sent, before September 16th, to the Assistant Secretary, Manchester Society of Chartered Accountants' Joint Tuition Committee, 46 Fountain Street, Manchester, 2.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 19TH, 1882

Extract from a letter to the Editor entitled:

**THE FINAL EXAMINATION OF THE INSTITUTE OF
CHARTERED ACCOUNTANTS**

SIR, - As one of the successful candidates at the recent examination, will you kindly give me space for the following remarks.

My object in drawing attention to the examination is not so much to complain, as to suggest what appear to me some necessary alterations in respect of several matters connected with it; for I deem it but fair to the candidates who have to follow, that the defects of the first examination should be pointed out, in order that those defects, if such they are proved to be, may be remedied, and that all grounds of complaint on the part of those who may be unable to satisfy the examiners may be removed.

The first suggestion I have to make, is a repetition of one already made in your columns; but since the necessity of its being carried out has become more palpable, I trust it will receive more attention than was given to it on a previous occasion. I refer to the necessity of the Council selecting a work on book-keeping to recommend to candidates . . .

The next point I would direct attention to arises out of the questions on the legal subjects. The feeling in respect of these is that there is room for considerable improvement. The papers, particularly those on "mercantile law and the law of arbitrations and awards" and "the adjustment of partnership and executorship accounts" (most of the questions on the latter subject are based upon a knowledge of the law relating thereto), go to show that the examiners expect the accountants of the future to be better informed on these subjects than most lawyers are found to be at the present time . . .

Another matter which I think should be avoided in future papers, is the setting of "catch questions". I do not believe it just that a candidate's success should be impaired by his failure to answer questions based upon the unlikeliest of hypotheses. I would suggest that future questions be more practical and less assumptive.

In conclusion, permit me to state that I write in what I deem to be the interests of the Institute, and not purposely to find fault. . . .

Yours, etc.,

ROBT. WHITEHILL.

Birmingham, August 5th, 1882.

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DECIMALIZING THE COINAGE

THE benefits to be derived from introducing a decimal currency and a metric system of weights and measures to this country have long been contemplated but, since 1897, when the use of metric weights and measures for all purposes was legalized, no further progress has been made towards achieving what more and more people are coming to regard as a much overdue reform.

The arguments against the introduction of a complete metric system are familiar. They are led by the sentimental plea that our existing standards of measurement have ancient origins and should be perpetuated because they are long familiar and much respected. To reason thus is to deny the phenomenon of a constantly changing world. What has become of the groat and the ell? Then there is the more practical objection that the change would make obsolete all or most of our existing media of measurement from the coins in our pocket to the schoolboy's twelve-inch ruler, and that the cost and the chaos which would ensue while becoming accustomed to the new standards would be ruinous. The real difficulty here would be the mental effort required to think in terms of multiples of ten instead of in terms of one, two, three, four, eight, twelve, sixteen and twenty, which is necessarily a much more complicated series of processes. The cost would certainly be a serious consideration but the transition would be staggered over a period of years and the expense thus absorbed gradually in our economy.

The remaining main objection to the metric system is that by accepting it, this country would be departing from the practices of the nations of the Commonwealth and of America, all of which use the imperial system of weights and measures or variations of it. As regards the coinage, the same unanimity does not exist. The United States and Canadian dollars are already geared to the decimal system and India has recently adopted a similar basis for her currency. Specially appointed committees are investigating the position for the Governments of New Zealand and South Africa and, in Australia, a growing interest in the possibilities of a decimal coinage is becoming apparent. It would seem, therefore, that by clinging to the convention of pounds, shillings and pence, the United Kingdom may soon be out of step with the countries of the Commonwealth and with America, as well as with the many nations of the world which followed France's lead when she adopted the practice of decimal coinage in the early part of last century.

The arguments against the metric system do not appear to be insuperable but what of the claims of its advocates? The global factors in its favour are many. It is already used by the great majority

of nations representing the preponderance of the world's population. It has the merits of simplicity and uniformity which certainly cannot be said for the imperial system with its complex calculations and national variations in absolute measurement standards. Moreover, the existence of two systems in a world rapidly becoming smaller is illogical especially when the Commonwealth and America between them handle about half the world's trade. This last consideration has recently been given a new and urgent twist by the prospect of a European common market and a free trade area. The difficulties of submitting tenders and specifications in a different technical language in the tense atmosphere of keen competition which the new conditions would engender were well illustrated by MR IAN T. MORROW, C.A., F.C.W.A., in a Third Programme broadcast on industrial problems a few weeks ago.

The case for the metric system was ably and exhaustively stated in the report, published in 1952, of the Hodgson Committee set up by the British Government to examine existing legislation on weights and measures with a view to bringing it into line with modern needs. The committee came down whole-heartedly on the side of extensive, albeit gradual, reform, but its findings were rejected by the Government. It is a profitable exercise to re-examine these recommendations in the light of the changes in the climate of world conditions during the past five years. In proposing that the imperial system of weights and measures 'should eventually be abolished in favour of the metric' the committee stipulated that the change-over should be preceded by (a) consultations with industry and commerce to determine the period of transition; (b) agreement with the Commonwealth nations and with America that they should change their systems concurrently; (c) a long campaign to prepare the general public for the change; (d) the decimalization of the currency; and (e) the formulation of schemes to effect the transition, trade by trade, with provision for compensation where necessary.

These proposals are a good example of what SIDNEY WEBB called 'the inevitability of gradualness' and, indeed, the committee estimated that it would take about twenty years to complete the change. How much trade and goodwill would be lost in that period – to which must be added the

time it will yet take for the country to come round to accepting the principle of the metric system and passing the necessary legislation to put it into practice – is incalculable. It would depend, *inter alia*, on how long our industries could continue to prosper by producing and selling the superior and distinctive goods on which their reputation is founded and with which they still command a world market. If they have to reduce their standards or enter the *mêlée* of mass production competition then, as MR MORROW pointed out in his broadcast, they would have to alter and adapt their manufacturing and selling techniques to suit their potential customers.

In competing in these new markets at the same time 'rich and strange', unified, internationally understood systems of measurement and money would, in consequence, help inestimably to avoid or minimize the cost and inconvenience of communication. For this reason, if for no other, we are of the opinion that immediate reconsideration should be given to the proposals of the Hodgson Committee. As a first important, but comparatively easy, step, the currency should be decimalized. This, in the view of the committee is essential, because

'... the internal convenience of a decimal system of measurement could not be adequately realized unless at the same time the coinage was decimalized. The whole argument of the greater ease of commercial and domestic calculation falls largely to the ground so long as the steps of the coinage are not decimal also'.

The mechanics of converting the currency have inspired many ingenious suggestions. One of these is that ten (very slightly debased) farthings would equal a new coin to be minted (someone has suggested that it should be called a groat), ten 'groats' would equal a florin and ten florins a pound, which would be, as at present, the currency unit corresponding to the dollar and the franc. Another popular idea is that the standard unit should be the ten-shilling note, suitably renamed, with the shilling and the penny as the tenth and the hundredth part respectively, and the 'fiver' (also renamed) as ten times the standard unit. Whichever scheme, or refinement thereof, were adopted, the basic principle of decimalization – that each denomination of coin must be worth either ten times, or one-tenth of, that next to it – would have to be strictly observed.

THE INVESTORS' VIGILANTE

THE Stock Exchange is keenly aware of its duty to safeguard the interests of shareholders as far as possible and, in particular, to secure the maximum disclosure of information. Nowhere is this duty more important than in relation to new issues of one kind or another. For nowadays the tempo of investment is on the verge of outrunning the available supply of savings. That being so, it is clearly essential to ensure that fresh capital is steered into the most remunerative channels and not frittered away upon a series of nebulous schemes. A reliable record of past performance is imperative if this choice is presented to prospective investors.

The rules of the Stock Exchange relating to Permission to Deal were last revised in 1947 in the light of the recommendations of the Cohen Committee and these have since proved to be a great improvement on those previously in existence. The opportunity was then taken of simplifying administration, so far as possible, by confining one section of the Appendix to each type of issue, viz. (a) original issues by prospectus or offer for sale; (b) original issues by placing or introduction; (c) original issues by circular; (d) further issues; and (e) provincial issues.

Now the time has come for a further re-examination of the rules, due largely to the changes in financial techniques which have come about in the company world since 1947. One need only mention the plethora of take-over bids which have occurred in the intervening years, and the more recent dodge of endeavouring 'to pour new wine into old bottles' through the use of 'shells'. The latter usually occurs where a company which has a quotation, a large body of shareholders and, having disposed of its business, be it factory or plantation, finds itself left only with liquid assets. As an alternative to liquidation, it frequently occurs that certain owners of businesses are prepared to make an offer to the directors to buy 90 per cent, or such smaller percentage as may be agreed upon, of the shares and thereafter transfer their properties to the old company in return for cash and new shares.

Apart from these changes of technique, however, there has been a noticeable deviation from the customary method of raising new money or floating new issues by public prospectus. For

instance, over the last five years the increase in the number of issues made by circulars to existing shareholders, offering them shares either by way of right or as an open offer, has been just as outstanding a feature of recent financing as the more publicized take-overs. The real motive behind the use of circulars is economy, but there is always the risk of investors being given less information than they would expect in the case of a public prospectus. To justify this on the grounds that the offer is confined to existing shareholders is unrealistic, as such issues attract – and indeed are meant to attract – the investing public at large.

The proposed amendments to the rules embodied in Appendix 34 which have now been passed by the Stock Exchange (subject to confirmation by the Council on September 16th, 1957), therefore, set out to deal with these defects which have arisen over the course of time and to make certain other changes of form. Thus, in future, it is intended to divide applications into two broad categories instead of varying the information required to be published according to the particular form which the issue might take. These two categories consist of (i) where the applicant has no securities quoted; and (ii) where some part of its share or loan capital is already quoted; and within these two broad groups to require the same information whatever form the issue may take. The first category is regarded as new to the Stock Exchange and therefore more information is required than for the second where, as some part of the capital is already quoted, there will be details available in the *Stock Exchange Official Year-Book* and the statistical services. There are two exceptions to this, however, one dealing with certain provincial issues, the other concerning capitalizations where a dispensation from compliance with certain paragraphs of the proposed new rules is provided for.

All in all, the effect of the major alterations has been to increase the amount of information required, especially in relation to subsidiaries and new acquisitions, following the principle that shareholders have a right to know what the directors are doing with their money. A principle which avowedly becomes of ever-greater significance as the ownership of public companies tends to become divorced from their control.

ANNUAL PAYMENTS—I

ON July 30th, 1957, the difficult question of what is an annual payment was once more the point at issue in a decision in the Courts. In *C.I.R. v. Whitworth Park Coal Co Ltd*, HARMAN, J., held, reversing the Special Commissioners, that interim income paid under the Coal Industry Nationalization Act, 1946, and the Coal Industry (No. 2) Act, 1949, falls under Case III and not under Case VI of Schedule D. The actual decision itself is only of special interest to former colliery owners, because interim income is really *sui generis* (see *C.I.R. v. The Butterley Co Ltd* (35 A.T.C. 66 at pages 71, 72 and 74) and because nothing closely resembling the complicated provisions in the Coal Acts is in existence or is likely to come into existence in the future. However, MR JUSTICE HARMAN referred briefly to many of the main characteristics of annual payments and this is therefore an opportune moment for a short discussion of this important tax concept.

References to the Phrase

The main importance of the phrase 'annual payment' is that it appears in the charging words of Case III of Schedule D—see Section 123 (1) of the Income Tax Act, 1952, sub-paragraph (a) of which taxes

'any interest of money, whether yearly or otherwise, or any annuity, or other annual payment, whether such payment is payable within or out of the United Kingdom, either as a charge on any property of the person paying the same by virtue of any deed or will or otherwise, or as a reservation out of it, or as a personal debt or obligation by virtue of any contract, or whether the same is received and payable half-yearly or at any shorter or more distant periods'.

Annual payments are also linked with both interest and annuities in Section 169, where the phrase is

'yearly interest of money, annuity or other annual payment';

in Section 170 (1) (a), which refers to

'any interest of money, annuity or other annual payment charged with tax under Schedule D';

and in Section 137 (1), which provides that in computing the amount of profits and gains charged under Case I or Case II, no deduction is to be made in respect, *inter alia*, of

'any annual interest or any annuity or other annual payment payable out of the profits or gains'.

It will be noted that there is no reference to 'yearly' or 'annual' in connection with interest in Section 170 and that there are no commas in Section 137 (1); these points may be relevant in considering the extent to which the *ejusdem generis* rule applies to 'other annual payments'.

Before referring to decided cases where the meaning of 'other annual payment' has been discussed, it may be helpful to mention some of the circumstances in which the question becomes relevant and to point out that sometimes it benefits the Crown and sometimes the taxpayer to contend that a particular payment is or is not an 'annual payment'; in other types of case the argument is between taxpayers, and the Crown is not directly involved.

Usually, the issue arises either out of a dispute between a payer and payee as to whether tax is deductible from a particular series of payments, or out of a closely related question, namely, whether or not the payment goes to swell the recipient's income and diminish the payer's income for income tax and surtax purposes. The matter may, however, be of importance for other reasons. For instance, in the *Whitworth* case, more than one year's interim income had been paid in a particular year of assessment and the taxpayer was concerned to argue first that interim income came under Case VI rather than Case III, and second, assuming Case VI to apply, that the interim income should be spread back over the period in respect of which it was payable by analogy with the 'Woolcombers' case (12 T.C. 768) and that dicta to the contrary in *Grey v. Tiley* (9 A.T.C. 533) were applicable to the case of casual profits only; the point was, of course, that if the payments fell within Case III they would necessarily be treated as income of the year of receipt under Section 524 (3), with unfortunate surtax consequences. In this connection, it may be noted in passing that many companies whose trading assets were nationalized by the 1946 Coal Act have been in a most unfortunate position (of which the Crown has frequently taken full advantage); they have been investment companies for the purpose of surtax directions (see the definition in Section 257 (2)), but not investment com-

panies for the purpose of making a management expenses claim under Section 425 (see the *Butterley* case referred to above); further, many companies have been prejudiced by delays of the Government department concerned either because they have been unable to qualify for the relief from penultimate assessments which Section 130 (3) was intended to give, or, as in the *Whitworth* case, as a result of the application of Section 524 (3), it being, of course, impossible to obtain a 'spread' under Section 238 (see *Troy Securities Ltd v. C.I.R.* (21 A.T.C. 29)).

Characteristics of Annual Payments

In the decided cases, many tests have at one time or another been suggested for determining whether or not a payment or a series of payments falls within the third of the three main categories referred to in sub-paragraph (a) of Case III. Four minimum requirements, however, stand out, namely, (a) that the payment concerned should be of the nature of income and not capital; (b) that it should not be charged under any other Schedule; (c) that it must be pure income profit in the hands of the recipient; and (d) that it must be capable of recurrence.

(a) Of an Income Nature

This requirement is, of course, only one illustration of the truth of LORD MACNAGHTEN's well-known remark in *Attorney-General v. London County Council* (4 T.C. 265, at page 293):

'Income tax, if I may be pardoned for saying so, is a tax on income.'

But, as is usual with dicta of this type, it is often much less easy to apply than to formulate. Very fine distinctions have been drawn and some of the decisions are hard to follow.

The basic distinction was expressed by ROMER, L.J., in *C.I.R. v. Ramsay* (14 A.T.C. 533, at page 539), as follows:

'If a man has some property which he wishes to sell on terms which will result in his receiving for the next twenty years an annual sum of £500, he can do it in either of two methods. He can either sell his property in consideration of a payment by the purchaser to him of an annuity of £500 for the next twenty years, or he can sell his property to the purchaser for £10,000, the £10,000 to be paid by equal instalments of £500 over the next twenty years. If he adopts the former of the two methods, then the sums of £500 received by him each year

are exigible to income tax. If he adopts the second method, then the sums of £500 received by him in each year are not liable to income tax, and they do not become liable to income tax by it being said that in substance the transaction is the same as though he had sold for an annuity. . . . The question which method has been adopted must be a question of the proper construction to be placed upon the documents by which the transaction is carried out.'

In the case with which he was dealing, the respondent had agreed to purchase a dental practice for £15,000, to be satisfied by an initial payment of £5,000 plus ten 'capital sums' equal to 25 per cent of the net profits of the practice for each of the following ten years, the total price of £15,000 being adjusted accordingly. It was held that these ten sums were not deductible in computing the respondent's surtax, i.e. they were not 'annual payments'.

This case may be contrasted with *Jones v. C.I.R.* ([1920] 1 K.B. 711), where the appellant sold an invention and goodwill in consideration of (a) £750 payable by three instalments of £100, plus a royalty of £5 per machine sold by the purchasers until £450 had been reached; and (b) a further royalty of £10 per machine for a period of ten years. The sums payable under (b) were held to be annual payments, ROWLATT, J., emphasizing (at [1920] 1 K.B., page 714) that there is no

'invariable principle that because it can be said that a certain payment is consideration for the transfer of property it must be looked upon as price in the character of principal'.

On the other hand, where there is an antecedent debt, the *presumption* is that the consideration for its liquidation is a capital payment 'unless the transaction makes it quite clear that an annuity was being bought, so to speak, by the release of the debt' -

per SCOTT, L.J., in *Dott v. Brown* (15 A.T.C. 147, at page 154) and the same principle presumably applies where a capital asset is purchased.

It would seem from the remarks of SCOTT, L.J., in *C.I.R. v. British Salmson Aero Engines Ltd* (17 A.T.C. 187, at page 197) that whether a sum would be treated as capital or income by business men or accountants is a matter of considerable weight in a borderline case.

(To be concluded.)

ESTATE DUTY

DEDUCTIONS FOR ANNUITIES

by GEORGE C. MASON, B.A.

THE significance of the cases of *Re Lambton's Marriage Settlement*, *May v. C.I.R.* (31 A.T.C. 300) and *Re Longbourne Marriage Settlement*, *Warren v. C.I.R.* (31 A.T.C. 438) was not that they decided any new principles but that they showed the practical application of matters already decided and gave form to a whole trend of judicial decisions. This trend may be said to have laid down the following principles:

- (1) Property passing on a death, which was subject to an interest which ceased upon that death, passes free from that interest.
- (2) The interest of an annuitant is not an interest in possession in the fund out of which his annuity is payable.

The first case in the series is *Cowley v. C.I.R.* ([1899] A.C. 198) in which a life estate, subject to an annuity limited to cease on the cessor of the life estate, passed to the former annuitant. It was held that the property passed under Section 1 of the Finance Act, 1894, free from the annuity for which no deduction was available.

In *De Freyne v. C.I.R.* ([1916] 2 I.R. 456), the deceased charged certain annuities and then settled the property upon himself for life. It was held that the property passed wholly upon his death with an actuarial deduction for the annuities.

In *De Trafford v. Attorney-General* ([1935] A.C. 280), property was settled for a life, an annuity being charged on the life estate, and on the falling in of that life, upon the annuitant for life. It was held, the property passing, that no deduction was available for the annuity the case being indistinguishable from *Cowley*. The annuity ceased on the death and it gave the annuitant no right in possession to any part of the settled property out of which it was payable. The whole property, accordingly, passed on the death.

In *Re Duke of Norfolk's Will Trusts* (29 A.T.C. 7) the circumstances concerned an annuity which passed on a death from one annuitant to another. It was held that the annuity passed under Section 1 of the Finance Act, 1894, and that an annuity is not equivalent to a share in capital equal to its yearly amount but it is merely a right to receive the yearly amount out of the property subject to the annuity.

Basis of Statutory Provisions

In *Lambton's Marriage Settlement*, a settlor settled funds to pay an annuity to his wife for life and to pay the balance of the income to himself, the whole income being settled on the survivor for life. The settlor predeceased his wife who, thereupon, became entitled to the whole settled fund for life, including that portion thereof which was previously taken up in the production of her annuity. It was held that the whole property passed without deduction for the annuity which was held not to be an interest in possession in the settled property.

In *Longbourne's Marriage Settlement*, the deceased settled funds to pay an annuity to her husband for life and subject thereto upon herself for life and upon certain remainders over, in which the husband did not benefit. The deceased was survived by the annuitant. The trustees claimed that the notional proportion or 'slice' producing the annuity, ascertained in accordance with the provisions of Section 7 (7) (b) of the Finance Act, 1894, did not pass on the death. It was held, pursuant to *Lambton*, that the whole of the property passed and that, since the Crown had conceded that there should be some deduction for the burden of the continuing annuity, the only deduction available must be one based upon actuarial principles.

Previous Exemptions for Annuities

The position concerning annuities which ceased on a passing of the property (i.e. the *Lambton* and *Cowley* type), was somewhat indeterminate before the *Lambton* decision, for although the principles had long been decided, nevertheless their application was overshadowed by the decision in *Attorney-General v. Glossop* ([1907] 1 K.B. 163). This case was held in *Lambton* to have been wrongly decided. The circumstances in the *Glossop* case were that the husband and wife settled respective funds to pay an annuity to the wife for life and the balance of the income to the husband for life and the whole income to the survivor for life, with remainders over. The husband predeceased the wife.

It was held that the husband's interest in the notional portion or slice producing the wife's annuity failed or determined before it became

an interest in possession and that, since these were the circumstances provided for in Section 5 (3) of the Finance Act, 1894, that notional portion or slice, ascertained in accordance with the provisions of Section 7 (7) (b) of the Finance Act, 1894, did not pass upon his death. It was not appreciated that since the life-tenant was in possession of the whole fund, that whole fund must have passed on his death.

The portion concerning annuities which continued after a passing of the relevant property (i.e. the *Longbourne* type), was governed by the *De Freyne* decision where annuities, charged before settlement, continued when the settled property passed. Accordingly, only actuarial deduction was available. Where the annuity was charged at the same time as the settlement, or subsequently to it, the *Glossop* position applied and slice deduction was available. This was not the position in Ireland subsequently to the decision in *Revenue Commissioners v. Malone* ([1951] I.R. 269) in which an annuity was charged before a resettlement, the annuitant surviving a life-tenant on whose death the property passed. It was held that the actuarial deduction, alone, was available.

The Slice Deduction

Section 32 of the Finance Act, 1956, does not fully restore the position concerning estate duty on annuities as it existed previously to the *De Freyne*, *Lambton* and *Longbourne* decisions. The following reliefs are, however, given:

Subsection (1) of Section 32 deals with the *Longbourne* type of case and it provides that the relief for the burden of the continuing annuity is to equal what the taxable quantum under Section 2 (1) (b) of the Finance Act, 1894, would be if the annuitant had died immediately before the life-tenant. That taxable element would, of course, have been the slice of the capital producing the annuity ascertained in accordance with Section 7 (7) (b) of the Act of 1894.

Subsection (2) of Section 32 provides that where the annuity is to be reduced on the death of the person upon whose death the property passes, the slice is to be calculated by reference to the reduced amount.

Subsection (3) deals with the *Cowley* and *Lambton* type of case and it provides that, for the purposes of the relief, the annuity which ceased on the death of the life-tenant is to be deemed to be of the *Longbourne* (continuing) type. The subsection therefore covers the case where a former annuitant becomes entitled to an interest

in possession in the property charged with his annuity. The slice producing the annuity in respect of which the relief is given is, where appropriate, restricted to the amount of capital passing to the former annuitant either absolutely or for life.

Restrictions on Relief

The restrictions on the relief afforded by Section 32 of the Act of 1956 are as follows:

- (i) The relief is only applicable to settled property (subsection (1));
- (ii) it is not applicable unless the property passes on a death by reason of the cesser of an interest limited to cease on a death (subsection (1));
- (iii) the annuity must be payable out of income and not out of capital (subsection (1));
- (iv) the property passing out of which the annuity was, or remains, payable, must not have been provided directly or indirectly by the deceased (subsection (1));
- (v) the relief is not applicable in respect of any settled property of which the deceased was competent to dispose and of which he did dispose by the exercise of powers contained in the settlement (subsection (5)). The appropriate relief is the actuarial value of the annuity, if continuing. Relief under Section 32 is not, however, excluded merely because the life-tenant could have appointed the settled property provided he did not appoint it (subsection (4)).
- (vi) the relief is not applicable where the property devolves on the personal representatives of the deceased as assets for the payment of his debts. The appropriate allowance in this case, for a continuing life-annuity, as in the case of a deceased absolute owner whose estate is subject to an annuity, is the purchase price of a Government annuity (subsection (4));
- (vii) the annuity must be capable of being valued under Sections 2 (1) (b) and 7 (7) (b) of the Finance Act, 1894. This excludes a discretionary annuity (subsections (1) and (3));
- (viii) the annuity must be limited by the same settlement. This excludes the *Malone* type of case in which the annuity was charged before a resettlement of property not provided by the deceased. It may be, however, that the restriction is only applicable to the *Longbourne* type of annuity and not to the *Lambton* type where the annuity ceases. The reference in Section 32 (1) (b) is to an annuity 'limited by the settlement to cease' and in subsection (3) to an annuity 'limited by a settlement'. The *De Freyne* type of case would, of course, be excluded by the provision were it not already excluded by the fact the deceased provided the property.

Expectant Estates

The new slicing provisions may have consequences to the estate duty position relating to expectant estates the valuation of which is regulated by Section 7 (6) of the Finance Act, 1894. Under the provisions of that section, duty may be paid either at the date of the death of the owner of the estate in expectancy or when the expectancy falls into possession.

If it is elected to pay the duty upon the death, the value of the expectancy must be established, duty being payable at the rate appropriate to the aggregation of that value with that of any other property passing on the death. If it is elected to postpone payment, the expectancy must still be valued for the purpose of obtaining an aggregated rate which is applicable only to the other property passing. When the expectancy falls into possession, duty is payable at the aggregated rate applicable to the addition to the value of the previously expectant property of the other property which passed upon the death of the owner of the expectancy, the value of the expectancy, as ascertained at that death, being disregarded.

When the items consist only of the expectancy subject to an outstanding life estate, with or without other property, Section 32 of the Act of 1956 has no application, but if the property, the subject of the expectancy, is charged with an annuity the section can have considerable effect. A case in point would be where property is settled upon A. for life, subject to a life annuity in favour of B., and on C. absolutely and where C. dies survived by the annuitant and the life-tenant.

A deduction for anticipated estate duty on the death of the life-tenant is available on the death of the owner of an estate in expectancy and, where the settled property is subject to an annuity, a deduction is also available for anticipated estate duty on the death of the annuitant. The estate duty which would become exigible on the death of the annuitant would be chargeable under Section 2 (1) (b) of the Finance Act, 1894, on the slice proportion ascertained in accordance with Section 7 (7) (b) of that Act.

The duty payable on the death of the annuitant will not be affected by whether or not the annuitant survived the life-tenant except in so far that, if he did so survive, the capital and income of the property subject to the annuity would, in the slice computation, be reduced by the estate duty payable on the life-tenant's death. The matter is not one to which Section 32 of the Act of 1956 is relevant.

Death of Life-tenant

Section 32 is, however, applicable to the computation of duty anticipated to be paid on the death of the life-tenant. At the time of the death of the owner of the expectancy, who is C. in the foregoing example, it cannot be known whether the life-tenant A. or the annuitant B. will *inter se* be the survivor. The figures for estimated duty will be affected by the respective ages of the annuitant and the life-tenant but, since it cannot be certain that the annuitant will predecease the life-tenant, the duty payable on that latter death cannot be estimated without regard to some deduction for the possibly continuing annuity. If the annuitant is older than the life-tenant the deduction will, of course, be less than if the reverse position applies.

The effect of this deduction, since it reduces the estimate of the estate duty payable on the life-tenant's death in respect of the settled property, must be to reduce the allowance to be taken for that anticipated duty on the expectant owner's death, so that the greater the deduction on the life-tenant's death the more disadvantageous it is to the estate duty position on the death of the owner of the expectancy.

According to the *Longbourne* decision, the deduction for the annuity would be its actuarial value and the effect of this would be to allow a larger deduction to be taken on the expectant owner's death than if the slice deduction is appropriate. It is understood that the official practice, before the Finance Act, 1956, was to take a mean between actuarial and slice deduction, the Commissioners not being prepared to accept the view that, despite *Longbourne*, the actuarial deduction would, in the future, be the appropriate one. Allowance would, of course, be taken in the Revenue's favour for the possibility that the annuitant might not be the survivor for, in that event, there would be a larger amount of duty payable on the life-tenant's death.

The effect of Section 32 is that the slice deduction will now be taken for the continuing annuity with the consequence that the deduction for anticipated duty on the remainderman's death will be reduced. If, in the events, the annuitant does not survive the life-tenant, Section 32 will afford no relief. In these circumstances the position would be that Section 32 would have reduced the deduction to be taken on the remainderman's death for anticipated duty without, in fact, reducing that duty when the life-tenant dies. This incidental operation of Section 32 can be of considerable importance when large aggregable elements are involved.

THE LAYOUT AND DESIGN OF ACCOUNTS—II

by E. J. NEWMAN, M.A., F.C.A.

Balance Sheet

(26) The requirements of the Companies Act, 1948, regarding balance sheets have helped forward what before that date was the best accounting practice and the pattern of capital, reserves, current liabilities, fixed assets, investments and current assets is now a thoroughly familiar one. For this reason it is probably true to say that the form of published balance sheets is generally superior to that of published profit and loss accounts. The classification imposed by the Act ensures that what the accounting conventions regard as the essential features are thrown up with reasonable clarity. This is not the time or place to raise questions about the nature and value of these classifications. In theory the distinction between fixed and current assets is by no means certain, while in practice various anomalies and problems (some of which arise acutely in a period of inflation) cause doubt whether it does in fact present a true and fair view. Mr Densem commented on this problem at this course in 1950 in these words¹:

'Normally the whole of the circulating assets of a company are grouped under the heading of current assets. A shareholder may possibly consider the aggregate of current assets in relation to the aggregate of current liabilities and if there is an excess of "net current assets" assume that the company has adequate working capital. This is not necessarily the case as stock-in-trade not infrequently comprises a substantial proportion of the total current assets; particularly in a manufacturing company, stock may be slow moving and not be realized before the creditors require to be paid. Stock cannot always be regarded as a "quick" asset for the purposes of an estimate of liquidity. The deduction, in total, of current liabilities from current assets, to arrive at net current assets, may therefore be of interest in indicating how much of the working capital is so employed, but in some circumstances this practice may give a false impression of liquidity. Current liabilities may, for instance, include a substantial bank overdraft or other facility.'

Nevertheless it is not easy to suggest an alternative pattern to that now imposed by the requirements of the Act.

(27) Accepting it as the best classification, if an imperfect one, and leaving aside the question of possible future developments in fundamental ideas about the cardinal principle of accounting, the problem of layout and design of balance sheets becomes largely that of exercising a nice discretion as to just what amount of information should be presented for review on a single or at the most double

sheet of paper. In dealing with this problem there are two extremes to avoid. On the one hand the balance sheet could be stripped to its barest bones and contain nothing more than the following totals, all subsidiary items and figures being given in accompanying schedules:

Share Capital	..	..	..
Capital Reserves	..	..	..
Revenue Reserves	..	..	..

Fixed Assets	..	..	..
Investments	..	..	..
Current Assets	..	..	..
Less Current Liabilities	..	..	..

Such treatment constitutes a departure from the principle that the information on supporting schedules should not outweigh the main picture and, where in a few cases the main picture has been cut down to the extent mentioned, the effect has been to obscure it by the mass of supporting schedules rather than to highlight it.

(28) At the other extreme is the attempt to present everything pertaining to the balance sheet on a single or double sheet with the result that it becomes cramped and therefore uninteresting and difficult to follow. In the case of many companies the details required by the Act are too numerous to portray at a single viewing. Nevertheless attempts are made to present at a single viewing all details not only of the balance sheet of a holding company but of the consolidated balance sheet as well, using the same descriptions for both and setting out the figures in parallel columns. Such attempts undoubtedly save space and the weariness of repeated descriptions, but these advantages are outweighed by the crowded appearance and the difficulty which the eye has in following the resulting mass of figures.

(29) It may be regarded as a sign of weak-mindedness to try to steer a way between two extremes but it is suggested that it is essential in the presentation of balance sheets. This calls for nice judgment as to what constitutes an attractive layout and how much information the vision can easily absorb from a sheet of figures without difficulty. This is not a matter which can be reduced to rules and it is one on which individual opinions may differ. Moreover the differences between individual companies make quite impossible any standardized solution of the problem. In some companies it may be possible to contain all that is required quite neatly and clearly on a single sheet, while with other companies it is impossible to do so. The problem generally resolves itself into the decision as to what information to

¹ The second and concluding part of an address delivered on July 15th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

² 'Is it true and fair', by W. G. Densem, A.C.A. See *The Accountant*, October 21st, 1950, at page 395.

relegate to supporting schedules. In this connection it is suggested that the details of fixed assets can be relegated first, followed by reserves if these are numerous, leaving the details of current assets and current liabilities appearing on the face of the balance sheet. The argument for this is that, while the total figure for fixed assets is of interest in showing how the capital and retained profit is split between fixed and working capital, the division between property, plant, etc., is not usually of much consequence. On the other hand, since the nature of items comprehended in the heading current assets varies considerably and the variation bears on the liquidity of the business, it is desirable for these details to appear on the face of the balance sheet.

(30) The problem of the information to be retained on the balance sheet and that to be shown in notes or on separate schedules is closely related to the choice between the vertical and the horizontal method of layout. In a simple case where the details to be shown are not many, the vertical method can present a neat and concise summary of the share capital and profits retained in the business and how those are represented by fixed assets, investments and current assets less current liabilities. There are at least three schools of thought about this method of presentation: some show the capital and retained profits first and describe them as represented by the assets which follow; others show the assets first and describe them as representing the capital and retained profits; while others prefer to describe the capital and retained profits as representing the relevant assets rather than as being represented by them.

(31) Where however the details which it is considered must appear on the face of the balance sheet are more numerous, as, for example, where there are long-term borrowings, minority interests, etc., the use of the vertical layout may produce a protracted statement and in such circumstances the method of presenting the balance sheet on two sides may give the view which can be most easily assimilated. In that event the two sides of the balance sheet should of course not be headed.¹ Compromise between the two methods is sometimes seen in the retention of the two-sided layout with the current liabilities deducted from the current assets. This however generally results in the one side of the balance sheet being so much longer than the other that it would normally have been better to adopt the vertical form. In general, therefore, there is a choice between adopting the vertical method or, where the details to be shown on the face of the balance sheet are too numerous, adhering to the more conservative method of a two-sided layout.

(32) Whether the vertical or the horizontal method of presentation be chosen, the balance sheet, as much as the profit and loss account, demands care

in the selection and handling of type and in the matter of spacing and alignment. The classification into the familiar categories laid down by the Companies Act is greatly assisted by discreet variations of the size of type so that the relative importance of headings, sub-headings and details and of totals and sub-totals is emphasized. Equally useful are shaded backgrounds to distinguish, for example, last year's comparative figures from those for the current year.

(33) For the sake of logic and tidiness attention should be paid not only to the classification required by the Act, but also to the order in which the classified groups are shown on the balance sheet and the order of the individual items within the groups. Published accounts are generally logical in this matter, but the accounts of private companies often leave something to be desired. The principle most commonly followed is to place the groups in the order of liquidity or the reverse and, whichever order is adopted for them, to let the individual items follow suit. Thus if fixed assets are shown before current assets, the individual current assets will be set out in the correspondingly logical order of stock, debtors, cash. If current assets appear first, the order of the individual items will be reversed. The same principle applies to the other side of the balance sheet with capital and reserves corresponding to fixed assets and current liabilities to current assets.

(34) Probably more than the profit and loss account the wording on balance sheets tends to suffer from two main faults. One is the use of technical terms and the other the use of words and phrases which carry more than one meaning. Some technical terms are unavoidable so long as the present classification into reserves and fixed and current assets is required by the Companies Act, but possibly there is no need to extend their use by the introduction of such phrases as 'net current assets' which, quite apart from the doubts about the value of the figure already mentioned, is a highly technical phrase. The danger of using words which have more than one meaning is illustrated by the word 'value' and it is noteworthy with what care the Institute's publications have steered clear of it, as for example in the phrase 'net book amount' suggested in the booklet on the Companies Act. Similarly, phrases like 'net worth' and 'capital employed' should only be used with the greatest care since economists and others may understand them quite differently from accountants.

Ancillary Information

(35) Many companies now provide with their annual reports much information of an accounting nature apart from the accounts themselves. This falls into three broad categories as follows:

- (1) Details of items of which only totals are shown in the accounts, e.g. particulars of fixed assets which are shown in total on the balance sheet.
- (2) Notes or information required by the Companies Act but which for one reason or another

¹ See Institute Recommendation VIII, 'Form of balance sheet and profit and loss account', paragraph 67. (*The Accountant*, July 5th, 1944, at page 29.)

it is felt desirable not to include on the balance sheet or profit and loss account, e.g. particulars of charges to the profit and loss account which are required to be disclosed but which for reasons already discussed may be thought best dealt with by way of note.

- (3) Additional information which is not required by the Companies Act, 1948, but which is considered useful to explain or illuminate the accounts.¹

Items falling into the first two of these categories are subsidiary to the main accounts and should appear as such. For this reason the manner of their presentation should be designed to make them clear and intelligible but without throwing them into prominence.

(36) With the third category, however, the degree of subordination to the main accounts is not the same and there is often room for an imaginative presentation of this information so as to attract the interest of readers. Such information appears to fall into four main groups:

- (37) (a) Summaries of figures taken from the accounts over a period of years to show trends and bring out significant ratios. Such information as this is very valuable. The Companies Act, 1948, requires only the comparative figures for one year to be shown, but any intelligent study of the results of a continuing business demands a consideration of the figures over a period of years and the growing practice of providing these is to be welcomed. Their study may be enlivened by the use of graphs. The inclusion of percentages to express various ratios, however, calls for care. For example, the expression of current profits as a percentage on a figure of capital computed by reference to historic cost calls for a note of warning lest it give a wrong impression.

- (38) (b) Information of an accounting nature which amplifies that given in the accounts, e.g. a statement of the source and application of funds during the year. This is information which any serious reader of the accounts will usually work out for himself and he will welcome having it supplied for him.

- (39) (c) Presentation in popular form, e.g. pictorially, graphically or by narrative, of information given in the accounts or additional information designed to interest those not used to studying accounts, such as employees. Into this category falls the familiar 'cutting the cake' statement, while one company at least, which is also sufficiently progressive to show its total sales and a summary of its costs, sets alongside a profit and loss account in the usual form virtually the same account set out in narrative form.

- (40) (d) Information which is quite additional to that disclosed by the accounts, e.g. statistics relating to plant, employees, turnover, products, sales areas, etc., all of which help to enliven the reading of the accounts and give a view of the company's activities which the accounts can never give. Oddly enough it is under this head that there is to be found, if it is there at all, a note of the main activities of a company or group.

(41) The fact that it is thought desirable to supply this additional information is an indication of the progress which has been made, most of it quite recently, in the presentation of accounting figures. Such a development cannot do other than provoke any auditor to reflect that there is something Gilbertian in the provision of so much accounting material over and above that which according to his own report gives a true and fair view of the operating results and the state of affairs of the company. In particular, the re-statement of the conventional form of account in simpler form must cause some hard thinking for those whose task is to present the accounts themselves in the simplest and most intelligible way possible. Equally, when information about turnover and costs is supplied outside the accounts, one may be pardoned for wondering why this information is not a part of the accounts themselves. The growing practice of providing this additional information is the result, in part at any rate, of the recognition of the extending field of interest in accounts already referred to. This is not a process which is likely to be put in reverse and it may well lead in time to an extension of the information required by statute and with it an extension of the sphere covered by the auditors' report. If so, the task of providing more information in a manner capable of ready assimilation by people less skilled in the understanding of accounts should be an absorbing one.

UNPUBLISHED ACCOUNTS

The Need for Finesse in Layout and Design

(42) It would be a great mistake to regard finesse in the layout and design as important only in the case of published accounts. In number, unpublished accounts must far exceed the published ones since the number of relatively small businesses greatly outweighs those of the large ones as is clear from examination of any of the reports by the Commissioners of Inland Revenue in recent years. Many accountants therefore must be concerned predominantly with the accounts of such businesses. They range from private limited companies through partnerships to sole traders and for present purposes their distinctive feature is taken to be that their accounts contain a full operating account by contrast with the abbreviated profit and loss statement in published accounts. Unhappily it would seem that far too many of these accounts are prepared solely to satisfy the Inland Revenue and pay little attention to layout and design. In this a great

¹ See for example the Institute's Note on 'Statistics relating to Income of and Capital Employed by Companies', published in December 1950.

opportunity is missed, for a process of education in the use of accounts is often necessary in connection with these businesses, which must begin by setting out the accounts in a way which emphasizes their value, not just for the purpose of settling tax liabilities, but also as a help in the day-to-day management of the business. Accountants have little hope of success as educators if their accounts are not drawn up in such a way as to be clear and intelligible to the proprietors of the business.

The Operating Account

(43) The majority of the operating accounts of small businesses still appear to be presented in debit and credit form, which is the direct product of the technique of double-entry book-keeping. As part of that technique its value needs no emphasis, but it is open to serious doubt whether it is the simplest and most intelligible form of presentation of the final accounts. Certainly it is not always the neatest or tidiest and often results in a lop-sided account with the number of entries on the debit side greatly exceeding those on the credit. Consequently the operating account may consist of two or three sheets with nothing on the credit side except a few items on the first sheet while the debit side contains a long list of expenses. Even where these expenses are suitably analysed under functional headings, such an account tends to be difficult to follow and to hinder the ready comparison of totals, ratios and trends from year to year. These difficulties can often be overcome by the use of the vertical form. Many variations are possible on the following theme but something of the sort may perhaps be preferred to the conventional debit and credit form:

Sales	£
Materials Consumed	
Direct Wages	
Manufacturing Expenses per schedule	
Increase or Decrease in Work in Progress and Finished Stock	
Expenses per Schedule	
General Administration	
Selling and Delivery	
Financial	
Operating Profit	

Details of the expenses would as indicated be given on supporting schedules.

(44) It is suggested that a layout such as this has the following advantages over the more usual form:

- (1) It is logical and therefore capable of being understood without difficulty by any person untrained in the techniques of accounting;
- (2) It throws into relief the main figures so that they can be seen at a glance and relegates the

- more detailed figures to supporting schedules;
- (3) It facilitates the incorporation of comparative figures for more than one year which is often most desirable;
- (4) It leaves room for the addition of figures other than sterling figures, such as percentages, quantities, weights, etc., as may be appropriate, for which space can rarely be found in the ordinary layout;
- (5) It is neater and tidier than the debit and credit form and economical of paper.

(45) The precise form which such an account will take must depend on the nature of the individual business and the analysis of expenses and other detail to be given require careful consideration in the light of the peculiarities and needs of each business. While certain general principles such as the analysis of expenses hold good for all businesses, standardization is impracticable. It may indeed be found that the vertical form of operating account does not always provide the best layout. For example, where the credit side of the account must contain a considerable amount of detail, as with farm accounts, instead of a single figure of sales, it may be found best to adhere to the debit and credit form. Generally, however, it will still be advantageous to keep the debit side to a length roughly equivalent to that of the credit side by relegating details of some of the expenses to supporting schedules.

(46) Whatever the actual layout of the operating account, a classification of expenses by function is essential. It is recognized that this is not easy since, particularly in small businesses, expenses tend to overlap several functions. Nevertheless it is generally possible to make some reasonable division and so achieve a classification which, if not precise, is at least a great improvement on the long list so often seen in accounts of unanalysed expenses in no sort of order. Such classification does undoubtedly help in the review of trends and ratios. Where monthly or quarterly figures are prepared for the use of management, the classification should follow that of the interim figures as closely as possible so as to facilitate comparisons. Where there is an integration of financial and costing records, it should be easy to achieve this. There are, however, still many businesses where this integration does not exist and it seems that sometimes, although interim figures are prepared for management, accountants make an annual visitation and prepare accounts without reference to these and often in such a form as to make comparison difficult. In doing this not only does the accountant run the risk of making errors through ignorance of facts which would be revealed by looking at the interim figures, but he greatly reduces the value of his services if he presents a picture different from that given by the interim figures without a word of explanation.

(47) Where there are no periodic estimates of the operating results at all, it should be the aim of the accountant so to present the annual accounts as to

impress upon the proprietors of the business the need for interim figures. We probably lose many opportunities of selling our services by not taking the occasion, when presenting annual accounts, to emphasize that they should generally only confirm what is already known. If the results come as a surprise, then it is clear that periodic operating figures are necessary. In this way the process of education may be moved forward and clients be led to a greater appreciation of the use to which their accounting records can be put.

(48) Where the business concerned is carried on by a limited company and there are shareholders who are not engaged in the management, it may not be desirable to provide them with a copy of the full accounts and it will then be necessary to prepare a separate profit and loss account to satisfy the requirements of the Companies Act, 1948. Sometimes the attempt is made to kill two birds with one stone by omitting from the operating account the charges which are required by the Companies Act to be disclosed, such as depreciation and management remuneration, and showing these only in the profit and loss account. It would seem, however, that such attempts are doomed to failure from the outset because they seek to achieve two incompatible objects.

The Balance Sheet

(49) Where the business is carried on by a limited company, the principles governing the layout and design of the balance sheet are the same as those applicable to published accounts. In the case of sole traders and partnerships, the balance sheet is linked with the previous one by the capital account. Generally this account appears as an item on the balance sheet itself and this has created a problem for textbook writers who have started from the premise that a balance sheet is a statement of assets and liabilities. It probably creates a problem for most laymen too and it is suggested that the capital accounts of the proprietor or partners, instead of appearing as an integral part of the balance sheet, should be shown separately as the link between the operating account and the balance sheet. Thus there would be presented three statements: the operating account, the capital accounts and the balance sheet. These three statements would be designed to provide the answer in summary form to the following three essential questions:

- (1) Have the year's operations resulted in a profit or not?
- (2) Of that profit (if any), how much has been absorbed by taxation or withdrawn for personal use, how much has been retained in the business and what additional capital (if any) has been introduced during the year?
- (3) What effect has the retained profit or the capital introduced had on the financial position and what changes have taken place during the year in the assets and liabilities of the business?
- (50) Classification of the assets and liabilities

should follow the same lines on the balance sheets of sole traders and partnerships as on those of limited companies. Attention should be paid to the order both of the groups and also of the individual items within the groups. This should normally be the order either of liquidity, starting with the current assets and current liabilities and ending with the fixed assets and capital, or the reverse. In some cases it may be found that a vertical presentation of the balance sheet gives the clearest picture especially if the suggestion already made concerning the capital accounts is adopted. It is, however, dangerous to generalize and each case must be considered on its merits.

General Principles

(51) The general principles already considered apply equally to the accounts of small businesses as to those of large public companies. Despite this, shillings and pence more often than not still appear on the former, while classification, grouping and wording frequently leave much to be desired. A useful adjunct to these accounts is a short report designed to draw attention to their salient features. This report, however, must underline and amplify, not simply repeat in another form, the information given in the accounts. In practice it is difficult to prevent such reports becoming stereotyped through slavish imitation year by year and, if they are to be really useful, they need fresh consideration each year.

NON-TRADING ACCOUNTS

(52) It is not only with accounts of trading activities that there is room for imagination and initiative in matters of layout and design. If they are of importance at all, they are of equal importance in the presentation of the final accounts of *all* activities from the income and expenditure of the Government on the one hand to the results of the local church fête on the other. To all these accounts the general principles already noted should be capable of application and the task of applying them to the infinite variety of activities covered by accounts provides scope for ingenuity and imagination.

Trust and Executorship Accounts

(53) The preparation of accounts for trusts and the estates of deceased persons provides opportunity for imaginative treatment because frequently they are intended for people quite unversed in any accounting technique and not used to reading accounts. It is necessary, therefore, more than ever to guard against the use of technical phrases and to use a layout which is not tied to book-keeping technique but is simple, logical and intelligible. There is a valuable recommendation by the Institute on the form of such accounts, which emphasizes these points.¹

¹ Recommendation XIV: 'The Form and Contents of Accounts of Estates of Deceased Persons and Similar Trusts.' (See *The Accountant*, August 13th, 1949, at page 178.)

(54) The form of vertical accounts with supporting schedules may well be particularly appropriate for executorship accounts, so that a typical set of accounts covering, say, the transactions of executors for the first year of an estate would consist of the following:

- (1) Summary of the estate as valued for duty purposes, the duty paid and other transactions on capital account up to the end of the year, leading by way of addition or deduction to the balance at the end of the year;
- (2) A statement of the assets less liabilities representing the balance;
- (3) Supporting schedules containing a list of such items as are too numerous to be detailed on Statement 1 or 2, e.g. legacies paid, debts due at death and various costs;
- (4) Schedule of the investments held at the date of death, the realizations and profit or loss thereon, together with the gross and net income derived from the investments;
- (5) Summary of income for the year and the division thereof between the beneficiaries;
- (6) Statement of payments made to the beneficiaries in respect of income and the balance due to them at the end of the year.

- (1) Assets at date of death as valued for probate

.....
.....
.....

Deduct Funeral Expenses ..
Debts due at death ..

Net Value for Estate Duty ..
Less Estate Duty ..

- (2) At the date of death the estate consisted of the following assets which were valued as shown for purposes of Estate Duty

.....
.....
.....

The funeral expenses amounted to ..
and debts due at death totalled ..

leaving a total liable to Estate Duty of ..
on which Estate Duty was paid at the rate of per cent absorbing ..

or
Because he had a life interest in X's Estate valued at £ , Estate Duty had to be paid at the rate of per cent, absorbing ..

(55) The narrative form of wording may often be used with advantage, not because it is necessarily simpler to follow and certainly not because it is shorter than the normal method, but because it is more familiar to the people who are likely to read the accounts. For example, of the following alternatives, while the first is shorter and probably quite as clear as the second, the latter has the advantage that it can be read as a narrative which is a form familiar to everybody:

(56) As with other accounts, however, it would be a mistake to suggest that standardization is possible and the needs of each particular case call for careful consideration. Examples will spring readily to mind of cases where the vertical form of account may not be suitable. If there are a number of funds being accumulated for various beneficiaries, a balance sheet in the usual two-sided form, showing the funds on one side and the assets representing those funds on the other, gives a bird's-eye view more satisfactorily than the vertical method which demands a single sheet for each fund and makes it impossible therefore to present the reader with a quick and comprehensive view of the whole position.

Accounts of Charities

(57) The accounts of charitable organizations can present particular problems, especially when the charity is incorporated under the Companies Act, and some attempt must be made to produce accounts with at least a resemblance to a profit and loss account and balance sheet. The extended use of deeds of covenant for subscriptions and donations has not made the problem any easier, since some of these may be regular contributions towards normal outgoings and others may be given in response to special appeals in connection with capital expenditure. If the two categories cannot be separated, it will probably be necessary to draw up accounts in some quite unconventional form and rely on carefully chosen descriptions to make it quite clear what has been done.

Conclusion

(58) Layout and design therefore comprehend something much more than attention to the small details in accounts. They touch the heart of the problem of presenting a true and fair view of the result of the many and varied activities covered by accounts. A review of published accounts shows the progress which has been made under the pressure of informed public opinion, aided by legislation, in increasing the usefulness of such accounts. That progress is continuing and will continue and, because legislation generally lags behind public opinion, no accountant can afford to rest on the bare minimum of existing statutory requirements and close his eyes to further developments in the presentation of accounts. It is always easier to let things stay as they are but progress is relentless and quickly overtakes us. We live in a changing world and must adapt ourselves to its needs. The moulding of public

opinion and ultimately of legislation on the shape of accounts to come whether published or unpublished has rested in the past and should continue to rest largely with the accountancy profession. If we are to answer the challenge, we shall need to remember that double-entry and the Eighth Schedule are only means and that the end is a truer and fairer view.

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Weekly Notes

P. D. Leake Research Fellowships

In September of last year, the Council of The Institute of Chartered Accountants in England and Wales stated that the Universities of Oxford, London and Birmingham had each agreed to establish a P. D. Leake Research Fellowship to be financed by the P. D. Leake Trust – a charitable trust created under the will of the late Percy Dewe Leake, who was a member of the Institute from 1886 until his death in November 1949.

It is now announced that two appointments to P. D. Leake Research Fellowships have been made for 1957–58. In the University of Oxford, Mr A. A. Pakenham-Walsh, M.A., F.A.C.C.A., has been appointed. Mr Pakenham-Walsh is a first class honours graduate in economics at the University of Dublin and for twenty-two years has been on the staff of Arthur Guinness, Son & Co Ltd. He intends to conduct research into 'Management accounting in the service of agriculture'. The second appointment is in the University of Birmingham, where the Fellowship has been awarded to Mr L. Wilk, D.F.C., M.A., F.C.A. Mr Wilk is a first class honours graduate in law at the University of Cambridge and after qualifying as a chartered accountant in 1931, practised for a short period. He then spent nine years as a chief accountant with W. & T. Avery Ltd. He intends to conduct research into 'Accounting for inflation'.

The object of the Fellowships is to provide university facilities for experienced accountants to carry out research in subjects with which the accountancy profession is directly concerned within the charitable object of the Trust.

Cost Accountants' Examinations

In the June 1957 examinations of The Institute of Cost and Works Accountants there were 81 candidates for the management accounting fellowship examination, of whom 14 were successful, the Lewton Coronation Prize in management accountancy being

awarded to Mr Leslie Gerald Young, A.C.A., of Cullercoats, Northumberland.

A total of 1,298 candidates sat for the whole or part of the Final examination, 217 passing the complete examination, 59 Part A only, and 186 Part B only; the remaining 836 candidates failed. Mr David Andrew, of Kilmarnock, gained the first place and has been awarded the S. Laurence Gill Prize. The Donald L. Moran Prize (management – factory and distribution) was won by Mr Cyril John James, of Neath, and the Leverhulme Prize for cost accountancy by Mr James Hetherington, of Ilford, Essex.

In the Intermediate examination there were 2,754 candidates, of whom 91 passed Parts I and II; 580 passed Part I and 304 passed Part II; 1,779 candidates failed. The George Russell Memorial Prize for first place was awarded to Mr Godfrey Frederick Groom, of Scunthorpe.

A summary of the home results, together with the names of the successful candidates in the Fellowship examination, and of those who completed the Final, appear elsewhere in this issue.

Iron and Steel Output

In spite of a reduction in home demand as a result of the Government's disinflationary measures, British steel output in July constituted a record for the month and was 11 per cent higher than in July 1956. Over the first seven months of the year output in 1957 was 6.5 per cent above that for 1956, though it must be remembered that last year's output was affected by the ban on overtime by maintenance men.

Over the first six months of the year, deliveries of finished products from United Kingdom mills were 2.7 per cent higher than in the corresponding period of 1956, the difference between this figure and that for the rise in crude steel output being due to reduced imports of semi-finished products. There was also an increase in producers' stocks of finished steel. Deliveries of finished steel to home consumers, how-

ever, were slightly lower than in the previous year and since home consumers also cut their imports by about one-third, total purchases of steel by British industry and by merchants were about 6 per cent down. As a result, exports of finished steel in the first six months of 1957 have been about 20 per cent higher than in the corresponding period of 1956.

There are already signs of re-expansion of home demand and in the second quarter of 1957 the only industries whose consumption was below that of the corresponding quarter of 1956 were drop forgings, bolts, etc., wire and general engineering. Deliveries for shipbuilding and for general building and constructional engineering have been expanding steadily, but the biggest fluctuations in demand have, of course, occurred in demand from the motor industry. In the first quarter of the year, deliveries to this industry were 30 per cent below those of a year ago; in the second quarter deliveries in 1956 and 1957 were about equal.

Orders for Machine Tools

The latest figures for orders and deliveries of machine tools indicate a large measure of success for the Government's measures to reduce the overload of home demand on the capital goods industries. New orders for machine tools from the home market totalled £24 million in the first five months of 1957 compared with £31 million in the corresponding period of 1956 and £32.3 million in 1955. As a result the total backlog of home orders has declined from £82 million to £68 million in a little less than a year.

The most encouraging features of the returns, however, are that the industry has at last succeeded in expanding deliveries and there has been a steady expansion of export orders, probably mainly as a direct result of the shortening of delivery dates. While the position varies considerably for different classes of machine tool, over the industry as a whole the total order book reached a peak of £104.9 million in June 1956 representing some sixteen months' output at the rate of deliveries prevailing in the first six months of 1956. By the end of May 1957 the order book had fallen to £91.5 million representing about eleven months' output at the increased rate of deliveries prevailing in the first five months of 1957. Export orders received in the first five months of 1957 totalled £11.4 million compared with £9.2 million in 1955.

The sharp increase in factory plans approved in the second quarter of 1957 may presage a reversal of the trend for home orders, but this will probably not occur much before the end of the year since there is usually several months delay in starting building work after the plans are approved.

U.S. Automobile Workers and Inflation

In view of the establishment of the Pay and Prices Council, a development reported from the U.S.A. last week is not without relevance for this country.

The president of the United Automobile Workers' Union is said to have written to the three largest motor manufacturers in the United States inviting them to join in stopping and reversing the inflationary trend by cutting the prices of their 1958 models by an average of at least \$100 or about £35 a car. In return, the Union would modify their new wage contract demands in such a way as to permit the companies to maintain a reasonable rate of profit.

The Union's contracts with the manufacturers expire on June 1st, 1958, and the Union has already announced that it proposes to negotiate for both an increase in take-home pay and a reduction in the working week. The manufacturers may, therefore, take the view that it is easy for the Unions to put their demands high, subsequently reduce them and claim that they are doing so in the public interest. The letter from the Union states that neither Corporation profits nor union aspirations are paramount but that the interest of the American people in a stable price level transcends both. There will also clearly be some difficulty in defining what constitutes a reasonable margin of profit and it may well be found impossible to grant any increase in wages or reduction in working hours without some rise in selling prices, though the Union clearly considers that at present selling prices, increased productivity will give some margin for division between the employers and the purchasers of cars.

Trade with China

The August issue of the *China Trade and Economic Newsletter* contains a warning that the relaxation of the embargo on exports to China is unlikely to have an immediate and dramatic effect on Chinese purchases from this country.

However, the long-term prospects are indicated by the fact that China is already importing machinery and industrial equipment to the value of £400 to £450 million per annum and owing to the embargo, the United Kingdom share of this total has been trivial, averaging well under £1 million per annum. Anxiety has been expressed from time to time as to China's ability to pay for increased imports from the United Kingdom. Sir David Eccles revealed in May, however, that China's exports to the sterling area (mainly Hong Kong and Malaya) have been exceeding imports by between £40 and £70 million per annum. During the current year China's favourable trade balance with the sterling area may be as much as £100 million.

A relatively slow build-up of British exports to China may well prove an advantage to British manufacturers. There are good prospects over the next twelve months of a considerable further increase in exports to the U.S.A. and Australia which at present constitute the two largest individual export markets. A sudden expansion of demand from a new quarter might, in these circumstances, result in an undue lengthening of delivery dates and thus prejudice the long-term prospects of trade with China.

Finance and Commerce

Currency uncertainties have made considerable impact on the stock-markets. Gilt-edged stocks have fallen to record low levels. Renewed Middle East tension has affected an already nervous oil share market. Only gold shares have shown strength as a result of buying for currency 'hedge' purposes.

George Newnes

This week's reprint gives the accounts of George Newnes Ltd, the publishing house. It has become a tremendous group with a list of periodicals coming off its printing presses long enough to stock a railway bookstall. There are the women's papers, the technical such as *Practical Householder*, the Temple Press section with *The Motor*, etc., and the National Trade Press with its fashion books, footwear and other periodicals for over a dozen trades.

One reads all this on page 2 of the annual report – incidentally, the sixtieth – and it is a point in favour that the company's own annual publication should thus show the nature and extent of the business. In the accounts, however, a non-standard treatment has been accorded to taxation, which calls a halt in the reading while one debates its effect.

The first halt is at the directors' report to establish that the dividend is stated gross by working out the 15 per cent final dividend on the £1,762,500 of ordinary capital. Then in the two balance sheets, we find the proposed dividends stated after deduction of tax, only to meet their debit in the profit and loss account before deduction of tax.

The 'after tax' treatment of dividends has now become so well-established that any change from the normal requires a readjustment, as it were, of accounting focus.

Shaw Dividend

With the accounts of Elizabeth Shaw (Holdings) Ltd, chocolate and sugar confectionery makers (for the year to December 31st, 1956) presented to the recent annual meeting, the directors recommend the company's first ordinary dividend: 2½ per cent. Payment is from 1956 profits, but the £50,000 of share capital issued after date is included in the payment. This was the capital issued in connection with the acquisition of Rogalls (Candyland) Ltd, on February 1st.

The decision to pay a dividend, it is stated, was not taken without very careful thought having regard to a continuing debit balance on profit and loss account. The deciding factor which the directors considered paramount was the existence on the register of a large number of small shareholders, many of whom had held their shares since the inception of the group in October 1954 and who had so far not received a dividend. Conventionally, it is added, dividends would only be resumed after all previous deficits had been recovered.

If an offer from H. S. Whiteside & Co Ltd is accepted by Shaw shareholders, these will be the last Shaw accounts for them. The offer is of one Whiteside 15 ordinary unit, quoted at the time at 45 7½d, for each Shaw 5s ordinary. The Shaw shares, with a prospective 18 per cent annual dividend, were first dealt in on the Stock Exchange on the basis of 10s 3d–10s 9d and were 11s 9d–12s 3d at the close of the first day's business.

Hoover Half-year

A high standard is set by Hoover Ltd with its report for the first half-year to June 30th, issued within a month of accounting date. Group profits (unaudited) of £1,686,000 compare with £1,028,000 for the first half of 1956. For the full year 1956, the figure was £2,790,000. Tax is estimated at £906,000 against £607,000 and the net profit at £780,000 against £421,000. The 1956 figure was £1,225,000. Deduction for minority interests leaves £763,000 against £392,000.

Hoover has not yet reached the point of giving turnover figures, but home market sales in the six months were up by 16 per cent and exports were up by 3 per cent. In the overall export field, including manufacture in Australia, France and New Zealand, the increase is 7½ per cent.

The figures for the home trade compare with a period last year when Government restrictions, which fell heavily on business with a large element of hire-purchase, had just been introduced.

Birfield Interim

A brief but very useful progress report has been issued by Birfield Ltd. Sales totalled £12,007,000 for eight months and twenty days to April 30th, 1957, compared with £12,769,000 for a full nine months to May 31st, 1956. The net trading surplus, however, for the periods was £739,000 against £1,288,000.

The surplus is calculated after deduction of all trading outgoings including depreciation, but before providing for taxation and reserve for increased replacement cost of fixed assets.

The stock and work in progress was not physically examined and to this extent, the interim report states, the figure of profit must be regarded as approximate. The approximate figures, however, are a valuable guide to the trend.

Money Market

Another rise in the Treasury bill rate has taken the rate to the highest level since April. The market's bid was cut by 6d to £99 on August 16th and the average discount rate came out at £3 19s 10-62d per cent. Applications for the £210 million of bills offered totalled £371,710,000. This week's offer is £220 million.

GEORGE NEWNES LIMITED and its SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET at 31st MARCH, 1957

Capital:—	Authorised	Issued	1956	1955
5% Cumulative First Preference Shares of £1 each	£500,000	£500,000	£500,000	£1,571,714
7% Cumulative Second Preference Shares of 10/- each	250,000	232,472	232,472	
Ordinary Shares of £1 each (Note 7)*	1,775,000	1,762,500	1,175,000	42,516
		<u>£2,494,972</u>	<u>£1,907,472</u>	
Capital Reserves (Note 2)*		£248,314	245,995	£1,568,518
Revenue Reserves and Undistributed Profits:—				
General Reserves (Note 3)*	£1,641,306			
Reserves for Contingencies (Note 3)*	161,200			
	<u>£1,802,506</u>			
Development Reserves (Note 3)*	1,029,506			
Taxation Reserves for future liability	652,459			
Balances on Profit and Loss Appropriation Accounts	361,019			
	<u>3,845,490</u>			
		4,093,804		332,756
Total of Capital, Reserves and Undistributed Profits		<u>£6,588,776</u>		
Interest of Minority Shareholders:—				
Preference and Ordinary Share Capital of Subsidiaries held by Minority Shareholders and their proportion of Reserves and Undistributed Profits			576,522	£282,497
				139,521
Supplementary Pensions Accounts (Note 4)*		236,100		103,341
				<u>£2,472,345</u>
Current Liabilities:—				
Sundry Creditors and Accrued Charges	£1,940,525			£570,219
Taxation	209,271			39,497
First and Second Preference Share Dividends accrued to date (after deduction of tax)	£9,272			
Provision for proposed Dividend on Ordinary Shares (after deduction of tax)	152,016			
	<u>160,288</u>			
		2,310,084		£1,403,414
				2,071,245
				643,575
				<u>1,377,546</u>
				5,495,780
				<u>£8,577,841</u>

*Notes not reproduced. — Editor.

GEORGE NEWNES, LIMITED and its SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st MARCH, 1957

Gross Trading Profit, for year to date	£1,726,818	1956 £1,331,987
Less:—		
Provision for Depreciation of Furniture, Fixtures, Plant, Machinery, Motor Transport and Ammortisation of Leases	£83,743	
Purchase of Copyrights written off	4,300	
Remuneration paid to Directors of George Newnes, Ltd.:—		
Fees from Newnes and Subsidiaries	1,650	1,767
As salaries Executives of Newnes, including contributions under Pensions Schemes	69,746	65,469
As Executives of Subsidiaries including con- tributions under Pensions Schemes	19,348	20,072
Pension paid to past Director	2,103	2,020
Pension paid through a Subsidiary to past Director	1,520	1,520
	182,410	169,745
(In addition to the Directors' remuneration shown above, two Directors received £100 each as nominees Directors of a Company not in the Newnes Group.)		
Add:—		
Gross Income from Investments:—	£1,544,408	£1,162,242
Trade Investments	£33,974	
General Investments and Deposit Accounts	23,690	
Tax Reserve Certificates and other Interest	13,207	
	70,871	58,212
Transfer Fees	158	137
Surplus on Sale of Capital Assets	7,194	1,872
(Transfer from Reserves)	—	320
(Profit on Realisation of Investments and Copyrights Less: Transferred to Capital Reserves)	—	—
	—	—
Gross Profit before Taxation	£1,622,581	£1,222,783
Less: Provision for Tax on Profits to date:—		
Profits Tax	£142,123	
Income Tax (including Overseas Taxation)	491,391	
	£633,514	
Deduct: Overprovision of Taxation in earlier years	37,648	66,092
	595,866	436,055
Balance Carried to Appropriation Accounts:—		
Parent Company (including Dividends from Sub- sidiary Companies)	£681,859	£537,725
Subsidiary Companies	344,856	249,003
	£1,026,715	£786,728

CONSOLIDATED PROFIT AND LOSS APPROPRIATION
ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1957

Balance Brought Forward from 1956 (see Note 6)*:—	1956 £372,725
George Newnes, Ltd., proportion	12,681
Add Minority Shareholders' proportion	£385,282
	13,482
Balance for Year:—(From Profit and Loss Account)	£398,764
Parent Company	£681,859
Subsidiary Companies	344,856
	1,026,715
Deduct:—	£1,425,479
Transfer to Pension Funds:—	
Staff Sick and Pension Funds £58,650	
Supplementary Pensions Ac- counts	25,300
	£83,950
" " General Reserves	464,616
" " Development Reserves	110,363
" " Reserve for Contingencies	8,681
" " Capital Reserves	2,319
	669,929
Dividends Paid, Accrued and Recommended (before deduction of Tax):—	£755,550
George Newnes, Ltd., Dividends for the year	£349,710
Dividends to Minority Shareholders in Subsidiary Companies	31,724
	381,434
Balance Carried Forward:—	
George Newnes, Ltd., proportion	£361,019
Minority Shareholders' proportion	13,097
	£374,116
* Notes not reproduced. — Editor.	
	£399,783

REPORT OF DIRECTORS
1957

The Directors have pleasure in submitting herewith the Sixtieth Annual Report and Balance Sheet of the Company as at 31st March, 1957, together with the Consolidated Balance Sheet and Profit and Loss Account of the Group for the year ended on that date.

The Net Profit of the Company as shown by the Consolidated Profit and Loss Account, after charging Taxation, Depreciation, Directors' Fees and Remuneration amounts to £681,859

To which has to be added the amount brought forward from last account 85,648

Making a total of £767,507

Deduct: Dividends on First and Second Preference Shares and Interim
Dividend on the Ordinary Shares (already paid) 76,523

Leaving a balance of £690,984

The Directors recommend that this amount be appropriated as follows:—

To pay a final Dividend on the Ordinary Shares at the rate of 15 per
cent. (making 17½ per cent. for the year) £264,375

To transfer to Staff Sick and Pension Fund 50,000

" " Supplementary Pensions Account 10,000

" " General Reserve 262,500

" " Contingency Reserve 3,548

To carry forward to next Account 91,749

£682,172

1956	1957
£537,725	£681,859
90,696	85,648
£628,421	£767,507
76,523	85,335
£551,898	£682,172
£176,250	£264,375
40,000	50,000
250,000	10,000
85,648	262,500
£551,898	3,548
	91,749
	£682,172

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'The Cause and Cure of Inflation'

SIR, - I think Mr W. L. B. Fairweather's proposed cure for inflation (issues of July 27th and August 17th) represents the economist's standard approach to a problem which has bedevilled the national economy for a very long time and which is a grave admission of economic ignorance in these enlightened times.

If, instead of entering the nebulous arena of anti-inflation-biased Budgets with the raising of taxes all round or with the cutting of social expenditure - measures which appear to constitute a very weak dam for a mighty flood - the Government recognized that the accountancy profession had laid a golden egg on the Treasury doorstep in the oblique shape of standard costs and budgetary control and took steps to see that industry as a whole, big and small, was made aware of the benefits to production of these scientific additions to management armoury, then not only would there be an overall increase in business growth and consequently in the national economy, but inflation could be held in check in measurable time. This would be achieved by a holding and lowering of prices as production and quality grew and wastage decreased.

The publication in all the Press of a production and a cost-of-living index in a popular form would also keep the public informed as to the success being achieved in combating an insidious opponent. This is preferable to the present furtive questions and answers in the House about the internal value of the £.

Yours faithfully,

C. RUSS.

London, NW3.

'Training for the Profession'

SIR, - I have read with interest the address published in your columns by Mr W. E. Parker, on 'Training for the profession'. It is disappointing, however, that, after making such a well-documented survey, Mr Parker was not encouraged to make some really progressive suggestions as to the manner in which future accountancy education should proceed.

It is impossible in the course of a letter to deal with the many comments which come to mind on the reading of this address, but there is one point at least to which I should like to refer. Mr Parker made a somewhat ungenerous reference to the Carr-Saunders report and, by implication, identified himself with the views of the Council of the Institute concerning it. The Carr-Saunders Committee dealt with commercial education as a whole and therefore included the profession of accountancy which is a part of such education. The basic principles recommended by the committee for the development of accountancy education were sound, namely, that entry for accountancy courses as such should not commence below the age of 18 and that part-time day courses,

possibly on the 'sandwich' principle, giving preparation for the Intermediate and Final examinations of the main accountancy bodies should be organized by the major technical colleges in conjunction with those accountancy bodies. It also considered that where students entered the profession at the age of 16 it would be desirable for them to complete a two-years' course for the National Certificate in Commerce which would, in itself, provide a sound basic training for the Intermediate accountancy examination to be taken at a later date.

Since the publication of the Carr-Saunders report there has been a rapid development in commercial education in technical colleges, many of which are in a good position today to provide the courses recommended by the committee.

The following is an example of one such course leading to the Intermediate accountancy examination, where the student is only 16 at the age of entry. In the first two years the student is required to attend the college on one day per week, but in the third year provision is also made for a sandwich course of three months' duration immediately prior to the Intermediate examination.

YEAR 1

Book-keeping and accounts (1).
General principles of law.
Commercial knowledge.
Economic history or statistics.

YEAR 2

Book-keeping and accounts (2), including elements of costing and taxation.
Economics.
Mercantile law.
Auditing.

YEAR 3

In this year all the subjects required for the Intermediate examination would be studied.

The student would be eligible to sit for the Intermediate and Final examinations of the National Certificate in Commerce in the first and second years of his course and the successes gained in these examinations would provide a useful guide to his principal as to the educational progress that he was making.

Many young qualified accountants take up appointments in industry and the Council of the Institute recognize the importance of industrial experience obtained during service under articles. A student who takes a course at a technical college makes contact with many students holding industrial appointments and is also able to participate in official visits made to the offices and works of local industrial concerns. Such a background is invaluable to the young accountancy student.

Habits of thinking developed over a long period sometimes engender an inflexible attitude, and the

accountancy profession is not immune from this. My plea is that members of the profession should consider the subject of accountancy education with an open mind and see that their articled clerks obtain the widest possible education and experience.

Yours faithfully,

Swansea.

A. W. FRYER, A.S.A.A.

Dispensing with Receipts

SIR, - I am pleased to see that your correspondent, Mr D. H. Brooks (August 10th issue), is advocating the abolition of receipts for cheque payments.

To obtain full benefit it is essential that discontinuance is universal. This is particularly important where machine accounting is in use for recording cash received, receipts being prepared simultaneously with preparation of cash sheet and bank credit slip. Clearly the automatic nature of machine operation makes it essential that every cheque received should be recorded in exactly the same way and selection of some items for special treatment is impracticable.

Yours faithfully,

R. J. WEBBER,

Chief Financial Accountant,
BAKER PERKINS LTD.

Peterborough.

Goodwill of Accountancy Practice

SIR, - The problem your correspondent poses in your issue of August 10th, arises from there being other facts than those he selects to stress. The first such fact is that (for our purpose here) there are two types of practices, and their markets are most unlike each other.

One type is where the clients' jobs are very large and the vendors sell only shares in large profits. In this type 'super profits' are relevant because they swamp the salary and interest portion of profits, e.g. a practice share yielding £15,000 per annum wherein partner's salary and interest on capital amount to £4,000, leaves £11,000 'super profits' to price in a sale.

In the other type of practice, 'super profits' have no relevance. The market for this type of practice comes from the numerous average and smaller practices, and the case quoted by your correspondent is of this class. The accountancy profession is not alone in this respect, e.g. the goodwill of smaller businesses generally sell on the basis of proprietor's earnings and only the very largest are sold on 'super profits'.

Now, in regard to the figures quoted by your correspondent, the potentiality is an income of £1,650 or more (not £1,350). That will be so, either because the practitioner devotes all his time to the practice (and so has materially lower costs than £950), or he maintains costs of £950 to free some of his time to earn more.

Such a practitioner as an employee would probably not get more than £1,000 per annum, receive little personal satisfaction, and be at the call of a manager. Contrary to your correspondent, he would find saving

more burdensome in that capacity than if he were in the practice quoted. The return from paying the price asked by the advertisement is not merely the £650 extra income, but also the possibility of it increasing and a number of intangible advantages which flow from being a practitioner: these are rightly valued highly by buyers as is the possibility of selling again.

Finally, may I draw your readers' attention to the fact that the market for *advertised general practices* has other practical features which exclude valueless theories of 'super profits' having any place in the dealings in that market, e.g. there are scores more buyers ready to invest in, or be responsible for £4,000 deals than there are for £40,000 deals, and besides, each job is separately saleable.

Yours faithfully,

JOB BUYER.

Age and Appointments

SIR, - I refer to the letter published in your issue of August 10th under the heading of 'Too old at 36?'

The writer may be interested to learn that I am discovering that 37 is apparently too old an age to obtain a suitable appointment.

In the last three months I have spent approximately £20 advertising myself available for employment. In addition, I have replied to some forty advertisements which have been requesting the services of an accountant. The result of this effort has been that I have been offered two situations involving considerable travelling, although I am seeking employment in London.

I originally requested a salary of £1,500 per annum but I have progressively reduced this figure until latterly I have suggested that approximately £900 per annum would be acceptable. This figure is, I understand, slightly more than a first-class shorthand-typist can obtain in London.

Are there then more accountants available than situations vacant or is it that a potential employer is not prepared to engage a person over 35?

Yours faithfully,

A. C. A.

Stock-in-trade 'Below Cost'

SIR, - I should appreciate the views of readers on the proper accountancy meaning and connotation of the words 'below cost' in a balance sheet.

Does the expression stock-in-trade 'below cost' mean that 'cost' has been undervalued, so as to form a margin of secret reserve? Is it correct to describe stocks 'at below cost' even though the items in inventory have been written down because they have depreciated in value on account of obsolescence, disuse, breakage, etc.? Is it correct to describe such stocks 'at cost' in a balance sheet, even where some items have been written down on account of above factors and not on account of undervaluation due to the intention of creating secret reserves?

Yours faithfully,

ARCADIA.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Stratton's Executors v. C.I.R.

In the Court of Appeal – June 6th, 1957
(Before Lord Justice JENKINS, Lord Justice SELLERS
and Mr Justice ROXBURGH)

Estate duty – Gift inter vivos – Legacy – Disclaimer – Death within five years – Customs and Inland Revenue Act, 1881, Section 38 (2) (a) – Married Women's Property Act, 1882, Section 19 – Finance Act, 1894, Section 2 (1) (c) – Finance Act, 1900, Section 11 – Finance (1909–10) Act, 1910, Section 59 (1) – Finance Act, 1930, Section 39 – Finance Act, 1940, Section 45 (2) – Finance Act, 1946, Section 47.

By the will of her husband, which was proved in 1950, twelve life policies were bequeathed to the deceased, two freehold hereditaments were devised to her and the residue was given to her three sons. By a deed of disclaimer in 1951 the deceased disclaimed and renounced all beneficial interest in the insurance policies and in the freeholds, but the deed did not state for whose benefit the disclaimer was made. The deceased died in 1953.

It was contended on behalf of the respondents that the disclaimer operated as the extinguishment of a right at the expense of the deceased, so as to be within Section 45 (2) of the Finance Act, 1940, and so as to be, therefore, a gift within Section 38 (2) (a) of the Customs and Inland Revenue Act, 1881, as applied to estate duty by Section 2 (1) (c) of the Finance Act, 1894. It was contended on behalf of the appellants that the effect of a disclaimer was not to extinguish a right but to avoid it *ab initio*.

Held (affirming the judgment of Mr Justice Dankwerts), that the effect of the disclaimer was to extinguish an inchoate right, which the deceased had at the date of the disclaimer; that that extinguishment was a transaction within Section 45 (2) of the Finance Act, 1940; that the extinguishment must be taken to have been for the benefit of the sons; that therefore the effect of the disclaimer was to make a gift; and that as the gift had been made within five years of the deceased's death, estate duty was payable upon the values of the policies and of the properties.

Samuel Dracup & Sons Ltd v. Dakin

In the High Court of Justice (Chancery Division)
June 27th, 1957
(Before Mr Justice HARMAN)

Income tax – Profits of trade – Pension scheme for directors, whether premiums deductible – Income Tax Act, 1952, Section 137 (a).

The company carried on business as textile engineers and its shares were held equally by two individuals who were the permanent directors, except

for one share which was held by a person who was director and manager.

In 1950 a pension scheme was arranged with an insurance company for the benefit of the company's work-people. With effect from May 1954, a pension was arranged for the two permanent directors, and endowment policies were taken out with another insurance society. The premiums on these policies came to £817 a year. In October 1955 one of the permanent directors resigned and no further premiums were paid in respect of him.

It was contended on behalf of the company that the £817, that was paid during the relevant accounting period, was a proper deduction in computing the profits of the company's business. It was contended on behalf of the Inland Revenue that at all material times the two permanent directors had the *de facto* control of the company, and that the £817 was not money wholly and exclusively laid out or expended for the purposes of the company's trade. The General Commissioners decided that the £817 was not a proper business expense.

Held, that by their finding the General Commissioners had rejected the contention that the £817 was wholly and exclusively laid out for the purposes of the trade and that there was evidence to support such a conclusion.

Sun Life Assurance Society v. Davidson Phoenix Assurance Co Ltd v. Logan

In the House of Lords – July 4th, 1957
(Before Viscount SIMONDS, Lord MORTON OF
HENRYTON, Lord REID, Lord KEITH OF AVONHOLM
and Lord SOMERVELL OF HARROW)

Income tax – Life assurance business – Commission paid to stockbrokers – Stamp duty on transfers – Whether expenses of management – Assurance Companies Act, 1870, Section 5 – Assurance Companies Act, 1909, Sections 3, 4, 7 – Finance Act, 1915, Section 14 – Income Tax Act, 1918, Section 33.

The appellant companies carried on life assurance business, and were assessed to tax in respect of their investment incomes without regard to their annual profits. The companies claimed to deduct as expenses of management (a) sums to stockbrokers on changes of investments, (b) stamp duties on transfers. The Special Commissioners decided that the brokerage and stamp duty should be treated as part of the cost of the purchase and sale of investments and not as expenses of management.

Held (affirming the judgment of Mr Justice Harman), that the decision of the Court of Appeal in *Capital & National Trust Ltd v. Golder* was indistinguishable and should be approved, and that neither the brokerage nor the stamp duty could be included in a claim for relief in respect of management expenses.

New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES

(5 & 6 Eliz. 2)

Chapter 34: National Health Service Contributions Act, 1957

An Act to make provision for requiring persons who pay, or are liable to pay, contributions under the National Insurance Acts, 1946 to 1956, to pay contributions towards the cost of the national health service, and, in consequence thereof, to reduce the rates of contributions under those Acts, and to discontinue the making of payments out of the National Insurance Fund in respect of the national health service under section thirty-seven of the National Insurance Act, 1946; and for purposes connected with the matters aforesaid.

Price 9d net.

July 17th, 1957.

Chapter 38: Housing and Town Development (Scotland) Act, 1957

An Act to make new provision with respect to contributions out of the Exchequer and by local authorities in respect of housing accommodation provided or improved in Scotland; to enable Scottish local authorities to provide housing accommodation and other development in relief of the needs of districts other than their own; to make additional provision as respects Scotland for the making of payments in respect of unfit houses which have been well maintained, to provide as respects Scotland for the making and keeping by local authorities of registers of maximum rents of dwellings in respect of which improvement grants have been made, and for the simplifying of the procedure for the completion of the compulsory acquisition of land under certain enactments relating to housing; to amend certain provisions of the Housing (Scotland) Act, 1950; to extend section nineteen of the Town and Country Planning (Scotland) Act, 1945; and for purposes connected with the matters aforesaid.

Price 1s 4d net.

July 17th, 1957.

Chapter 40: Thermal Insulation (Industrial Buildings) Act, 1957

An Act to make provision for the thermal insulation of industrial buildings; and for purposes connected therewith.

Price 6d net.

July 17th, 1957.

Chapter 41: Advertisements (Hire-Purchase) Act, 1957

An Act to make provision as to the information to be included in advertisements displayed or issued in connection with hire-purchase or credit sale; and for purposes connected with the matter aforesaid.

Price 6d net.

July 17th, 1957.

Chapter 42: Parish Councils Act, 1957

An Act to make further provision as to the constitution of parish councils, and as to the powers of parish councils and parish meetings, in rural parishes in England and Wales.

Price 9d net.

July 17th, 1957.

Chapter 43: Representation of the People (Amendment) Act, 1957

An Act to amend the Representation of the People Act, 1949, by assimilating the limitation on election expenses for candidates at parliamentary elections in constituencies in Northern Ireland to the limitation on those expenses for candidates at such elections in constituencies in Great Britain.

Price 3d net.

July 17th, 1957.

Chapter 44: National Health Service (Amendment) Act, 1957

An Act to empower local health authorities to make available, for reward, ambulance services provided by them in pursuance of the National Health Service Act, 1946, and for purposes connected therewith.

Price 3d net.

July 17th, 1957.

Chapter 45: Exchequer and Audit Departments Act, 1957

An Act to make further provision as to the salary of the Comptroller and Auditor-General and the performance of his duties.

Price 4d net.

July 17th, 1957.

Chapter 46: Judicial Offices (Salaries and Pensions) Act, 1957

An Act to provide for increasing the salaries of the recorders of Liverpool and Manchester, of County Court judges and of metropolitan police magistrates; to make further provision as to the pensions of the said recorders; and for purposes connected with the matters aforesaid.

Price 4d net.

July 17th, 1957.

Chapter 47: Ministerial Salaries Act, 1957

An Act to make further provision with respect to the salaries of certain Ministers and of the Leader of the Opposition; to provide for the extension to Ministers of the provision of section forty-one of the Superannuation Act, 1949, relating to injuries incurred and diseases contracted in the discharge of duty; and for purposes connected therewith.

Price 4d net.

July 17th, 1957.

Chapter 49: Finance Act, 1957

An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with Finance.

Price 2s 9d net.

July 31st, 1957.

Chapter 50: Army (Conditions of Enlistment) Act, 1957

An Act to make further provision as to the transfer to the reserve or determination of service of persons serving in the army for a term of twenty-two years.

Price 4d net.

July 31st, 1957.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council Meeting held on August 7th, 1957, who completed their Fellowship or membership before August 20th, 1957.

Associates elected Fellows

- Corrigan, Thomas, B.A., B.COM.; 1926, A.C.A.; 11 Downs Road, Purley, Surrey.
- Freeman, John Albert; 1948, A.C.A.; (Horsfield & Smith), Belgrave Place, 8 Manchester Road, Bury.
- Fudge, Leslie Alfred; 1951, A.C.A.; (Ralph D. Owen & Co), 18A Queen Square, Bath.
- Fuller, Kenneth James; 1952, A.C.A.; (H. S. Baker & Co), Bletchley Road, Bletchley, Bucks.
- McBrien, William Robert; 1951, A.C.A.; (Gibbons & Mitchell), 7/8 Wellington Square, Hastings, and at Rye.
- Paine, Kenneth Frederick; 1948, A.C.A.; (Lord, Foster & Co), Rex House, 38 King William Street, London, EC4.
- Patel, Rambhai Marghabhai, B.COM.; 1952, A.C.A.; (R. M. Patel & Co), 63 Lincoln's Inn Fields, London, WC2.
- Pritchard, (Mrs) Gwenith Margaret Lilian, B.A.; 1947, A.C.A.; (D. LL. Pritchard & Pritchard), 10 Red Street, Carmarthen.
- Sassoon, Isaac; 1952, A.C.A.; (Fisher, Sassoon & Co), Havinden House, 71 Baker Street, London, W1.
- Shaw, Charles Sadler; 1938, A.C.A.; (Charles S. Shaw & Sons), London Assurance House, 36 Bennett's Hill, Birmingham, 2.
- Spencer, George Edward; 1952, A.C.A.; (G. E. Spencer & Co), 131A Eltham High Street, London, SE9.
- Walsh, Stanley Thomas; 1952, A.C.A.; (Dixon & Co), Midland Bank Chambers, North Street, Taunton, Somerset.
- Wiener, Gerald Leopold, O.B.E.; 1950, A.C.A.; (Broads, Paterson & Co) and (*Arthur Young & Co), 31-45 Gresham Street, London, EC2; (for other towns see Broads, Paterson & Co and *Arthur Young & Co).
- Wooding, Edward James Gardner; 1949, A.C.A.; (Camp, Ravenscroft & Co), Stock Exchange Buildings, 33 Great Charles Street, Birmingham, 3.

Admitted as Associates

(Not in Practice)

- Frank, Reginald John, 6 St Eric's Road, Bessacarr, Doncaster.
- Mellor, Stephen Ward, Rosemount, Woldingham, Surrey.

Former Members re-admitted to Membership

- Fenwick, William Henry, with Chipchase, Wood & Co, Barclays Bank Chambers, Market Place, Durham.
- Fernihough, Norman James, with Barker, Williams & Co, 16 Irving Street, Leicester Square, London, WC2.

PERSONAL

MR JOSEPH LONGTHORN, F.C.A., practising under the style of JOSEPH LONGTHORN, Chartered Accountant, at 41A Queen Street, Great Harwood, Lancashire, announces that as from August 1st, 1957, he has admitted to partnership Mr BRIAN LONSDALE HARTLEY, A.C.A., and that the style of the firm will be changed to LONGTHORN, HARTLEY & Co, Chartered Accountants, at the same address.

* placed against a firm name indicates that the firm is not wholly composed of members of the Institute.

MESSRS BAKER & Co, Incorporated Accountants, announce that as from August 15th, 1957, the address of their Rushden office will be 129 High Street, Rushden, Northamptonshire. Telephone: Rushden 3301.

PROFESSIONAL NOTES

Mr Eric F. Wilkins, F.C.A., has been elected a director of the Allied Produce Co Ltd.

Mr D. D. Mathieson, F.C.A., has been appointed a director of The Hampton Timber Co Ltd.

Mr J. F. T. Nangle, F.C.A., has been appointed an additional director of the Mansfield Brewery Co Ltd.

Mr L. J. Culshaw, F.C.A., and Mr J. F. T. Nangle, F.C.A., have been appointed the auditors of the accounts of the British Transport Commission for the year ending December 31st, 1957.

Mr J. W. Lee, A.C.A., has joined the board of James Powell & Sons (Whitefriars) Ltd.

Mr William R. C. Halpin, B.A., A.C.A., has been appointed a director of Premier Consolidated Oilfields Ltd and elected chairman.

Mr W. S. Hulton, C.A., has been appointed a director of Charterhouse Industrial Development Co Ltd.

Mr Lawrence William Lowe, A.S.A.A., has been appointed a director of The Rio de Janeiro Flour Mills & Granaries Ltd as from August 13th. Mr Lowe retains the position of secretary of the company.

OBITUARY

ALBERT STUART ALLEN, F.S.A.A.

We have learned with much regret of the death, at the age of 57, of Mr A. Stuart Allen, F.S.A.A., of London, who was President of The Society of Incorporated Accountants in 1949-51.

Mr Allen served his articles with the late Mr A. F. Saunders, F.S.A.A., and was admitted an Associate of the Society in 1926. He was elected to Fellowship in 1930 and four years later, in March 1934, was elected to the Council. He became Vice-President of the Society in January 1949, after the death of Mr J. Paterson Brodie, F.S.A.A., and was elected President in June of that year.

Mr Allen commenced practice with Mr Edward Baldry, F.S.A.A. (now Vice-President of the Society) in 1927 and with subsequent amalgamations continued in joint practice under the name of Allen, Baldry, Holman & Best until 1948. He had acted as adviser to the Finance and Taxation Committee of The Association of British Chambers of Commerce, and during the Sixth International Congress on Accounting held in London in 1952 he served as vice-chairman of the Congress Council.

EDGAR NORTON READ, F.C.A.

We have learned with regret of the death on August 5th, at the age of 87, of Mr Edgar Norton Read, F.C.A., of London. Mr Read was the son of the late Mr George Norton Read, founder of the firm of G. N. Read, Son & Co, now Reads, Cocke & Watson, Chartered Accountants, of London, and at the time of his retirement from practice in December 1955, was one of the oldest practising members of the Institute. Mr Read

was admitted an Associate of the Institute in 1894, and was elected a Fellow in 1903. He had been a member of his firm for sixty years.

GEORGE MEDWELL JOHNSON, F.C.A.

We have learned with regret of the sudden death, while on holiday at Newquay, Cornwall, of Mr George Medwell Johnson, F.C.A., a partner in the firm of T. C. Squance & Sons, Chartered Accountants, of Sunderland.

Mr Johnson joined the firm in 1921 and was admitted an Associate of the Institute in 1926. He was admitted to partnership two years later and was elected a Fellow of the Institute in 1937. Mr Johnson's father, at one time senior partner in the firm, joined the firm in 1902 and remained until his death in 1949; there was thus a direct family connection with the firm of fifty-five years.

Mr Johnson served in the Territorial Army in the 7th Battalion, The Durham Light Infantry from 1922-31, when he retired with the rank of captain. He rejoined in 1939 the successor of the same regiment - the 47th Searchlight Regiment, R.A. - and served until 1942, retiring with the rank of major.

Mr Johnson was a Justice of the Peace for Sunderland and was for many years keenly interested in the work of the Sunderland Drama Club; his other main interest was gardening of which he had an expert knowledge.

WALTER KERR, C.A.

We have learned with regret of the death in London at the age of 59 of Mr Walter Kerr, C.A., a director of the British India Steam Navigation Co Ltd.

Mr Kerr joined the company in 1923 as an assistant in the accounts department and was appointed an accountant in the following year. He was appointed assistant secretary in 1938, secretary in 1946 and joined the board earlier this year.

In his youth, Mr Kerr was a keen athlete and he refused the offer of representing Scotland in the three miles in the 1920 Olympic Games in order to take the Final examination of the Scottish Institute. He was admitted to membership of the Scottish Institute in 1921.

FREDERICK ARTHUR PRIOR, F.S.A.A.

It is with regret that we record the death at the age of 58 of Mr Frederick Arthur Prior, F.S.A.A., a member of the Council of The Society of Incorporated Accountants, and senior partner in the firm of Prior & Palmer, Incorporated Accountants, of Nottingham.

Mr Prior was admitted an Associate of the Society in 1912 and founded the firm of Prior & Palmer six years later. He was elected a Fellow of the Society in 1920 and was elected to the Council in 1936.

During the year 1946-47, Mr Prior was national president of the Cinematograph Exhibitors' Association;

previously he had acted as secretary of the Notts. and Derbyshire branch of the Association from 1918-1944 - when he was appointed chairman for the year - and had represented the branch on the Association's general council for twenty-four years.

From 1918 until this year, Mr Prior was secretary of the Notts., Derbyshire and Lincolnshire Wholesale Grocers' and Provision Merchants' Association. He was a director of Barnett-Hutton Ltd, of Nottingham, and of the Seacroft Golf Links Co Ltd.

DOUBLE TAXATION: U.S.A.

An agreement has been signed between the United Kingdom and the United States which makes certain additions to the existing Double Taxation Agreement between the two countries. The agreement, which supplements the 1945 agreement covering income tax, relates to royalties on copyrights, patents, designs, secret processes, trade-marks, and similar properties.

THE ASSOCIATION OF SUPERANNUATION AND PENSION FUNDS

The Association of Superannuation and Pension Funds will hold its autumn conference on Friday, November 15th, at the Connaught Rooms, Great Queen Street, London, WC2, when the topic for discussion will be 'The impact of a national superannuation scheme upon private occupational pension schemes'.

This year the Association's Council has decided to hold a full day's conference instead of an afternoon one as in previous years. The conference will commence at 10 a.m. with an address by Mr W. H. Clough, F.I.A., who will be followed by other speakers dealing with different aspects of the subject; the afternoon session will be mainly devoted to discussion.

The conference fee will be £1 15 and further information concerning reservations may be obtained from the Secretary, The Association of Superannuation and Pension Funds, 221 Kensington High Street, London, W8.

FACTS ABOUT BRITAIN'S ECONOMY

A booklet produced by the Central Office of Information¹ and published this week, summarizes the basic features of the United Kingdom's economy in a form designed for quick reference. The booklet is a revised and enlarged edition of one which was previously made available through the Board of Trade and the Federation of British Industries to business men going abroad and should prove very useful in the compilation of speeches, lectures or articles of a general descriptive nature needing key facts and figures. It is intended to issue further revised versions from time to time.

¹ Fifty Facts about Britain's Economy, H.M.S.O., 6d net.

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Office Management Association**GLASGOW AND WEST OF SCOTLAND BRANCH**

The Glasgow and West of Scotland Branch of the Office Management Association will hold its seventh annual one-day conference and exhibition on October 22nd in the Ca'doro Restaurant, Glasgow, on the subject of 'Production and materials control'.

The conference will be opened by Mr W. Hope Collins, joint managing director of William Collins, Sons & Co Ltd, and the conference chairman will be Mr W. A. Smith, C.A., who is convenor of the conference committee.

A paper will be given by Mr J. W. Atwell, M.Sc., works director of G. & J. Weir Ltd, and the speaker at the luncheon will be Mr James Craik, M.A., B.Sc., Ph.D., chairman of the Nobel Division of Imperial Chemical Industries Ltd. Equipment appropriate to the subject will be exhibited by over twenty leading firms.

Further particulars of the conference may be obtained from the Conference Secretary, Mr J. P. McNee, C.A., of Donaldson & Filer Ltd, 68 Cogan Street, Glasgow, C3.

ECONOMIC SURVEY OF AUSTRIA

A survey of economic and commercial conditions in Austria, the first to be published since before the war, has been issued by the Board of Trade.¹

Austria has a substantial import trade, chiefly with Western Germany, the United States, Italy and the United Kingdom. The principal imports are solid fuel and various raw materials for use in her manufacturing industries. Austria buys from the United Kingdom woollen goods, chemicals, machinery, vehicles, sheep's and lambs' wool, iron and steel and non-ferrous metals.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 26TH, 1882

Extract from a leading article entitled

A MODEL BANKRUPTCY

One of the largest and most important of the bankruptcies under the Act of 1869 – that of Messrs. Wike and Son, of London and Manchester – has recently been closed. . . . We may say with confidence that no estate of similar magnitude, wound up under any former system, will bear comparison with this in point of economy of administration. It will be observed on reference to the report that the trustee – Mr. Adam Murray, of the well-known firm of Broome, Murray and Co. of Manchester – realised £109,351 from the assets given up by the bankrupts, being nearly £1,300 in excess of their value as estimated in the bankrupts'

¹ H.M.S.O., 4s 6d; by post 5s.

statement of affairs. This fact is worthy of especial notice, when it so often happens that the amount realised by the trustee from a bankrupt's estate falls so very far short of the estimated value; and it shows that no part of the estate can have been in any way sacrificed. But what strikes us as a very exceptional incident in connection with the winding-up of this estate is the fact that the interest allowed by the bank on the balance of the trustee's estate account actually exceeded the whole amount charged by and allowed to the trustee for his remuneration – the figures being, interest allowed by bank £2,460, trustee's remuneration, £2,453; so that practically the whole amount realised from the assets, with the exception of what was necessarily expended in law costs, court fees, etc. was distributed among the creditors in the shape of dividends. Excluding the trustee's remuneration, which was covered by the bank interest, the whole working expenses of the bankruptcy amounted to only £3,391, or a trifle over 3 per cent. of the assets – if calculated on the gross assets without deduction of extraordinary outlay, the percentage would be something under 3 per cent. A system of bankruptcy administration which admits of such satisfactory results as these cannot be so radically bad as is popularly supposed. In fact, the case under consideration proves that the present system is all that can be desired when properly administered by responsible trustees of good standing, who simply desire to do the best they can in the interests of the creditors, and are content with a fair remuneration for their services. . . .

We must, in conclusion, congratulate Mr. Murray on the successful administration of this estate, and point out to our readers that he has by that administration done good service to the profession whose interest we advocate, by demonstrating so conclusively the fact that the Bankruptcy Act of 1869 is capable of being worked to the entire satisfaction of creditors, and that the ranks of the Chartered Accountants produce the most successful administrators of that Act.

ANNOTATED TAX CASES

Edited by ROY BORNEMAN, Q.C.

Published each month. Reports of Income Tax, Surtax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Results of Examinations held in June 1957

SUCCESSFUL CANDIDATES - HOME CENTRES

FELLOWSHIP EXAMINATION

Astbury, B. H., Coventry.	Hindley, A. J., Altrincham, Cheshire.	Reavley, C. W., Huddersfield.
Black, A. F., Kilmacolm, Renfrews.	Howard, M. J., Port Sunlight.	Robertson, W., Giffnock, Renfrews.
Carson, E., Welwyn Garden City.	Mason, R. H., St Annes-on-Sea.	Thorn, J., Gloucester.
Charnock, J. B., Bebington, Cheshire.	Pakenham-Walsh, A. A., Shankhill, Co. Dublin.	*Young, L. G., Cullercoats, Northumberland.
Cox, R. A., Twickenham.	Price, J. G., Crawley.	

* The Lewton Coronation Prize in Management Accountancy.

81 candidates sat. Of these, 14 candidates passed, 67 failed.

FINAL EXAMINATION

PARTS A AND B

First Place (S. Laurence Gill Prize): Andrew, D., Kilmarnock.

Bright, M. C. R., Bournemouth.	Genner, J. B., Brierley Hill, Staffs.	Pearcey, J., Wednesbury, Staffs.
Byam Shaw, G. D., London.	Holroyd, P., Wrexham.	Pote, H. A., London.
Charlton, J. R., Guildford.	Iliffe, C. W. D., Coventry.	Secrett, K. E., Farnham, Surrey.
Clear, J. E., London.	Jones, E. B., Cheam, Surrey.	Watt, A. M., Oxhey, Herts.
Crawford, D. McK., Glasgow.	Lopez, K. W., Birkenhead.	Watt, J. M., Kingston upon Thames.
Dale, J. M., Hampton Hill, Middlesex.	Mackenzie, A. J., West Bromwich.	Webster, H., Cleethorpes.
Eden, G. J., Coulsdon, Surrey.		Williams, M. G., Loughton, Essex.
Fry, R. F., Cambridge.		Wilson, T., Preston.

102 candidates sat. Of these, 23 candidates (as listed above) passed Parts A and B; 10 candidates passed Part A only, 17 candidates passed Part B only (names included in list under that heading); 52 candidates failed to secure any pass.

PART A (COMPLETING FINAL)

Abraham, R., Liverpool.	Conquest, N. W., East Grinstead, Sussex.	Ive, B. J., Waltham Abbey, Essex.
Akroyd, Miss J. M., London.	Cooling, J. R., Manchester.	James, C. J., Neath.
Alsop, H., Durham.	Coombs, T. G., Swindon.	Jarvis, J. L., Wolverhampton.
Anderson, G., Middlesbrough.	Coombs, T. B., Merton Park, Surrey.	Jeapes, S. J. T., Chislehurst, Kent.
Aphale, N. R., London.	Cox, H. S., Wellingborough.	Jefferiss, L. J., Cranham, Essex.
Atkinson, W. L., Bromsgrove.	Croll, A. L., Dundee.	Jones, D. G., Southampton.
Bagwell, E. A., Luton.	Dickson, O., Shotley, Suffolk.	Jones, D. J. W., Birkenhead.
Baker, J., Gainsborough.	Durrant, C. C., London.	Justice, P. J., London.
Bamford, A. S., Welwyn Garden City.	Evans, B. A., Edgware, Middlesex.	Karnik, B. B., Doncaster.
Barnsley, S., Hebburn, Co. Durham.	Falck, F., Sheffield.	Kelly, D. McA., Hornchurch.
Beagles, P., London.	Fowler, D. A. H., Whitton, Middlesex.	Kershaw, S., Marple, Cheshire.
Bell, R. G., Cardross, Dumbs.	Freeman, R. A., St Albans.	King, N., Blackburn.
Bibby, C., St Helens, Lancs.	Galaska, M. R., London.	King, R. W., High Wycombe, Bucks.
Black, D., Cumnock, Ayrshire.	Gamble, J., Belfast.	Liversage, R., Derby.
Bolam, T. P., Heaswall, Cheshire.	Ghosh, P. K., London.	Low, E. G. I., Edinburgh.
Boodley, J. R., Ashford, Kent.	Goodwin, W. R., Burton-on-Trent.	McNaughton, D., Hamilton, Lanarks.
Briers, J. T., Shepshed, Leics.	Gough, J. O., Bristol.	Maltby, S., Stapleford, Notts.
Brooks, R. L. J., Hornchurch.	Greaves, D. P., Prestwich.	Megson, D., Hull.
Buckley, E. W., Durham.	Guha Roy, S. K., Stone, Staffs.	Mellor, H., Huddersfield.
Buffery, A. M., Erdington.	Harris, T. H., Melton Mowbray.	Moran, E. P., Hornchurch.
Burton, S. K., Sunderland.	Harrison, A. J., Rochdale.	Morris, K. R., Wembley.
Button, P. G., London.	Harrison, K. N., Barnoldswick.	Moseley, D. B., Bromley, Kent.
Buya, K., Derby.	Harrison, W., Newcastle-on-Tyne.	Mowat, I. S., Leeds.
Candey, D. T., Liverpool.	Hartwell, F. M., Southampton.	Nancarrow, C. J., London.
Candlish, E., Port Sunlight.	Hellmann, G., London.	Naylor, B., Dunstable.
Carter, D. R., London.	Herbert, K., Edgbaston.	Newlands, S., Renfrew.
Carter, J. McG., Bristol.	Heritage, D. G., York.	Newport, J. D., Sutton Coldfield.
Carvel, J. O. A., Glasgow.	Heywood, D. S., Birmingham.	Norman, H. J., Swindon.
Catling, R. R., Loughborough.	Higgins, A. H., Birkenhead.	Nye, R. E., Maidstone.
Chakravarti, S. R., London.	Hinchey, M. H. B., Ashted, Surrey.	O'Reirdan, L. K., London.
Charity, F. W., Derby.	Hinks, J. R., Warwick.	Owen, G. R. P., Berkhamsted, Herts.
Cheshire, F., Romford, Essex.	Hornsby, D. L., Stockton-on-Tees.	Paget, R. C., Birmingham.
Clare, N., Warrington.	Hosie, J. N., Glasgow.	Palmer, F., Manchester.
Clark, G. H., London.	Hough, K. V., St Albans.	
Clark, K., Chesterfield.	Howes, E., London.	
Clark, T. D. L., Greenock.		
Clark, W. F. C., London.		
Clarke, P., Bolton.		

† Donald L. Moran Prize for Management - Factory and Distribution.

Palmer, R. F., Saffron Walden, Essex.
Park, E., Newcastle upon Tyne.
Parkin, D., Consett, Co. Durham.
Partleton, S. S., Workington.
Payton, J. L., Birmingham.
Pease, C., Welwyn.
Perkins, D. S., Canterbury.
Perkins, J. H., Staines, Middlesex.
Phelps, A. J. M., Sunbury-on-Thames.
Philburn, J. A., Leeds.
Phillipson, B., London.
Piper, A. J., Upminster, Essex.
Pritchard, J., Darlaston, Staffs.

Reeves, D. C., Solihull.
Riggott, R. O., Chesterfield.
Rivett, O. A., Ockbrook, Derbys.
Routen, P. J., Leicester.

Royce, A. W., Belvedere, Kent.
Rushworth, J., Derby.
Ryan, J., Westhoughton, Lanca.

Salmon, P. F., Birmingham.
Sarkar, A., London.
Sedgwick, K., Long Eaton, Notts.
Sehgal, R. G., Manchester.
Shailer, P. E. A., Enfield, Middlesex.
Sheasby, M. J., Coventry.
Smith, A. E., Derby.
Smith, B. W., Watford.
Smith, J., Manchester.
Spear, C. W., Hornchurch.
Speirs, D., Nottingham.
Spooner, M. J., Yeovil.
Stevenson, J. M., Sunderland.
Symon, G. O., Glasgow.

Turnell, J. S., London.
Turner, A. R., Edgbaston.
Tuten, J. J. T., Glasgow.

Walker, P. G., Cranham, Essex.
Walkerdine, K., Derby.
Walsh, M. F., Waterford, Eire.
Walton, H., Bredbury, Cheshire.
Walton, W., Middlesbrough.
Watson, G. J. C., Ipswich.
Weaver, J. E., Bolton.
Webster, A. J., Wolverhampton.
White, K., Wallsend-on-Tyne.
Wicks, D. A. R., Havant, Hants.
Wilkinson, J. T., Burnham, Bucks.
Willia, F. I., Kilbirnie, Ayrshire.
Wood, P. W., Hockley, Essex.
Wright, J. N., Leeds.

459 candidates sat. Of these, 157 candidates (as listed above) passed; 302 candidates failed.

PART B (COMPLETING FINAL)

Adamson, T., London.
Anderson, J. M., Nottingham.
Armitage, W. J., Liverpool.
Ashcroft, F., Wigan.

Barber, I. G., Godstone, Surrey.
Bran, D. I., Eastleigh, Hants.
Browning, O. R., Corsham, Wilts.
Burborough, A. J., Abingdon, Berks.
Bushell, K. C., Ramsgate, Kent.
Bye, E. J., London.

Clowes, J., Stoke-on-Trent.
Cook, M. C., Harrow.
Cruickshank, J. McI., Newcastle upon Tyne.
Fox, J. S., Wolverhampton.

Gaskin, P. N., Norwich.
Goodlad, J. B., Sheffield.
Gridley, L. P., Chelmsford.

Hailey, D. R., Aylesbury.
Hards, E., Portslade, Sussex.
*Hetherington, J., Ilford, Essex.
Hinchliffe, R. E., Huddersfield.
Horton, K. B., Croydon.

Innes, W., Montrose, Angus.

Johnson, M. W., Leicester.

Kelly, P. H., Oldham.

McKinnon, J., Paisley.

* Leverhulme Prize for Cost Accountancy.

McPhail, J., Uddington, Lanarks.
Mephram, M. J., London.
Montgomery, H. H., Belfast.
Moody, G. W., Glasgow.

Needham, D. J., Leicester.

O'Connor, J. K., Ilkeston, Derbys.

Padgham, R. E., Eastbourne.

Reynolds, F. T. J., Harrow.
Richardson, J., Sheffield.

Spalton, R. H., Twickenham.

Van Der Willik, M. P. J. L., London.

83 candidates sat. Of these, 37 candidates (as listed above) passed; 46 candidates failed.

Summary of Results - Home Candidates

GRADE	PASSED	PASSED	PASSED	PASSED	PASSED	FAILED	NUMBER OF CANDIDATES
	Completing Examination	Intermediate Part I only	Part A only	Part B only	TOTAL		
FELLOWSHIP	14	—	—	—	14	67	81
FINAL							
Parts A and B	23	—	10	17	50	52	102
Part A (Completing Final)	157	—	—	—	157	302	459
Part B (Completing Final)	37	—	—	—	37	46	83
Part A (only)	—	—	49	—	49	114	163
Part B (only)	—	—	—	169	169	322	491
TOTAL	217	—	59	186	462	836	1,298
INTERMEDIATE							
Parts I and II	91	91	—	—	182	165	347
Part I	—	489	—	—	489	868	1,357
Part II	304	—	—	—	304	746	1,050
TOTAL	395	580	—	—	975	1,779	2,754
PRELIMINARY	77	—	—	—	77	150	227
GRAND TOTALS	703	580	59	186	1,528	2,832	4,360

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THE ACCOUNTANT

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AUGUST 31ST, 1957

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PRIVATE COMPANY FINANCING

WE reproduce in this issue the first part of a paper entitled 'Finance for privately-owned businesses' presented by Mr A. R. ENGLISH, A.C.A., of the Industrial and Commercial Finance Corporation, at the summer course of The Institute of Chartered Accountants in England and Wales at Christ Church, Oxford, on July 13th.

We commend the paper to all our readers for it condenses into a small space an encyclopaedic knowledge of all the factors in private company financing; the manifold and complex tax repercussions, the inflexible requirements of the Companies Act, the various aspects of borrowing and lending technique, and the needs and preferences of different kinds of investors, to name but a few topics. This information is presented lucidly and with wordly-wise comments that could come only from extensive experience in this highly specialized field. Its practical value to accountants advising the owners of family businesses is immense; all the more so in that some of the topics discussed are not so adequately examined in any textbook.

One example is the consideration of the assets basis of valuation of shares for estate duty purposes under Section 55 of the Finance Act, 1940. Mr ENGLISH stresses some aspects that are widely misunderstood. The readiness of the Legislature in 1954 to mitigate the rigours of Section 55 by some extremely complex provisions in the Finance Act, 1954, has produced a situation in which it often pays to ensure that shares are valued under Section 55 rather than on the normal basis laid down in Section 7 of the Finance Act, 1894. Where Section 55 has been applied and the shares are then sold within three years of the death, the executors, but not the Estate Duty Office, can claim a revision if the facts justify it. Moreover, the fact that the sale was at a figure higher than the valuation does not preclude a revision, for the sale price must be adjusted to take into account new circumstances obtaining at the time of sale.

Again, where the company's assets include machinery or industrial hereditaments, the 45 per cent reduction in respect of these may bring the estate duty below what would result from an ordinary valuation of the shares. Mr ENGLISH points out that this reduction even applies in favour of arm's length debentures and he also highlights the curious fact - surely never consciously intended by the draftsman of the 1954 Act - that where a charge is to be given on these specially favoured assets, it is a positive disadvantage to borrow the money from a bank.

ANNUAL PAYMENTS—II

(a) Must be of an Income Nature (cont.)

IN last week's article (at pages 208-9) we pointed out how fine may be the distinction between a series of annual payments within Case III, of Schedule D and a series of instalments or other annual sums of a capital nature. Besides *C.I.R. v. Ramsay* (14 A.T.C. 533) already referred to, several other cases concerned with the sale of a share in a partnership illustrate this point.

In *Mackintosh v. C.I.R.* (7 A.T.C. 209), surviving partners were under an obligation to pay the personal representatives of a deceased partner £500 per quarter for five years for use of the firm's name etc., which privilege could thenceforth be enjoyed without further payment; ROWLATT, J., confirming a decision of the Special Commissioners, held that the sums were of an income nature and 'annual payments'.

In *C.I.R. v. Ledgard* (16 A.T.C. 68; 21 T.C. 129), the personal representatives of a deceased partner were entitled to such a sum as might be agreed with the surviving partners and failing agreement

'a sum equal to one-half of the share of profits for three years commencing from . . . the death of such partner which would have been payable to such deceased partner had he continued to be a partner'.

The decision of the auditors was to be binding on all parties and no payment on account could be required to be made. LAWRENCE, J., reversing the Special Commissioners, held that it was a lump sum to be paid at the end of three years when ascertained and not a lump sum payable by instalments. During the course of his judgment he referred to an important dictum of LORD BUCKMASTER, who said in *Glenboig Union Fireclay Co Ltd v. C.I.R.* (1 A.T.C. 142, at page 144) that

'there is no relation between the measure that is used for the purpose of calculating a particular result and the quality of the figure that is arrived at by means of the application of that test'.

The *Ledgard* case must be contrasted with *C.I.R. v. Hogarth* (19 A.T.C. 361), where an agreement was made with a retiring partner entitling him 'in full settlement of his whole share', *inter alia*, to

'a sum equal to one-fourteenth part of the net profits of the business for the three years ending

December 31st, 1937, 1938 and 1939 under deduction of income tax'.

The Revenue's contention that only a single sum was payable was rejected by the Court of Session mainly because the individual years were mentioned. Some weight was given by both LORD NORMAND and LORD MONCRIEFF to the fact that, by specifically referring to the deduction of tax, the partners had showed they intended the sums to be of an income nature; there are, however, obviously limits to such an argument.

Whether a particular series of payments is of an income or capital nature usually depends on its character when considered from the point of view of the recipient rather than the payer. Thus, where trustees under a will were directed to raise a sum out of capital to make a life-tenant's income up to a certain figure in years when the trust income was insufficient, these sums were treated as annual payments assessable under Section 170—*Brodie's Trustees v. C.I.R.* (12 A.T.C. 140). The same principle applies to payments out of capital which the trustees made by virtue of a discretion given them and not under a specific direction—*Lindus and Hortin v. C.I.R.* (12 A.T.C. 140). It also applies where the settlor himself is concerned; in *Morant's Settlement Trustees v. C.I.R.* (27 A.T.C. 57) the unfortunate CAPTAIN MORANT had settled £100,000 on protective trusts for himself for life with remainders over, and the deed provided that if in any year the net income were less than £6,500, the trustees were to raise the difference out of capital and pay it to the settlor unless he directed in writing to the contrary; the sums so raised were held liable to tax.

These cases should be contrasted with the rather exceptional facts in *C.I.R. v. Lady Castlemaine* (22 A.T.C. 206) where a deceased's estate was not sufficient to pay the actuarial value of two annuities provided by the will and the annuitants were consequently entitled to have the residuary estate divided between them proportionately. The trustees had paid the respondent's annuity for a time and she was assessed to surtax thereon, but it was held that the payments must be treated as being on account of the capital sum to which she was entitled and that they were consequently not taxable.

(b) Must not be Charged under any other Schedule

The second main characteristic of an annual payment, namely, that it is not charged under any other schedule, arises from the fact that the charging words in Schedule D which concern Case III are residual in form – see Section 122, paragraph 1 (b), Income Tax Act, 1952. If authority is required it is to be found in *Hill v. Gregory* (7 T.C. 37, at page 47).

(c) Must be Pure Profit Income

The basis of this characteristic is that for there to be an annual payment, a slice of the payer's income must in effect have been transferred to the payee; this is to be contrasted with a mere outlay of part of the payer's income which is a mere receipt in the payee's hands.

The phrase originates in the judgment of THE MASTER OF THE ROLLS in *Re Hanbury* (20 A.T.C. 333), a case which decided that tax was not deductible from payments made for the use of certain chattels which were employed in connection with the respondent's colliery business. The principle, however, was perhaps first clearly laid down in *Earl Howe v. C.I.R.* (7 T.C. 289), where tax was held not to be deductible from insurance premiums notwithstanding that there was a covenant to pay them.

A recent application of this principle is *C.I.R. v. National Book League* ([1957] T.R. 141), where a person who made a covenant in favour of a charity was entitled to certain benefits or facilities of a not insubstantial kind, while the charity on the other hand, had to incur expenditure in providing them. In these circumstances it was held that the covenanted sums could not be 'pure profit income' and they were therefore not annual payments, the corollary being that tax was not deductible by the payer nor reclaimable by the payee.

One aspect of this doctrine which has not yet been fully worked out is the burden which it may place on a person obliged to make periodical payments; in some cases he may be quite ignorant about the recipient's affairs and consequently whether tax must or may be deducted or not; indeed, even if originally known, the recipient's position may change without his knowledge.

(d) Must be Capable of Recurrence

An annual payment must be at least *capable* of

recurring – see per LORD MAUGHAM in *Moss' Empires Ltd v. C.I.R.* (16 A.T.C. 178) where he contrasted the position under Case I where 'annual' means 'in any one year', as it probably does in Case VI as well. See, also, per LORD GREENE, M.R., in *Asher v. London Film Productions Ltd* (22 A.T.C. 432).

It is generally thought that in view of this principle weekly payments must be capable of extending over a period of one year in order to be annual payments within Case III.

Other Actual or Alleged Characteristics

(i) It has been asserted in the past that the meaning of 'annual payment' must be restricted by the terms of the long descriptive passage in Section 123 (1), Case III, paragraph (a), which was quoted in last week's issue, at page 208. This view was disapproved in *Smith v. Smith* ([1923] P. 191, at pages 197 and 201); see also, per LORD GREENE, M.R., in *Cunard's Trustees v. C.I.R.* (24 A.T.C. 317), but it may still be going too far to say that the words in question have no restrictive effect whatever. Clearly, however, payments under a Court Order and under a Statute may be within Case III, notwithstanding these words – see, for instance, *C.I.R. v. Corporation of London (as Conservators of Epping Forest)* (32 A.T.C. 111) and the recent *Whitworth Colliery* case.

(ii) It would seem that 'annual payment' must be read *ejusdem generis* with interest of money or any annuity – see *Hill v. Gregory* (6 T.C., at page 47) and *Howe v. C.I.R.* (7 T.C., at page 303).

(iii) In certain types of case it would appear that the amounts, if not fixed, must be at least capable of ascertainment from the document under which they are payable, e.g. by reference to a constant formula – see *D'Ambrumenil v. C.I.R.* (19 A.T.C. 125). Payments made under a trustee's discretion, however, do not fit into this rule very easily.

(iv) The payments must not be voluntary. This requirement, however, is subject to certain reservations. For instance, discretionary payments under a trustee's powers are not 'voluntary' in this sense. See also *Dealler v. Bruce* (13 A.T.C. 306), where an obligation to make annual payments, though not imposed, was undertaken in order to secure a particular advantage and it was held that Case III applied. (Concluded.)

CAPITAL COSTS AND FUEL PRICES

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THE public limited liability company meets its more permanent capital requirements in three main ways: by inviting the public to subscribe for the various kinds of shares which constitute its share capital; by inviting the public to lend money on the security of its assets or in certain cases to make unsecured loans; and by retaining out of the earnings of this capital a proportion thereof to provide for expansion and development.

From an individual company's point of view this procedure gives rise to the problem of achieving a properly organized capital structure, that is to say, a correct balance between the amount of capital raised by means of equity share issues and that raised by means of fixed interest or fixed dividend-bearing stocks. The need for a properly organized structure arises from the fact that while share capital is serviced out of profits made available for this purpose, borrowed money implies acceptance of a liability to pay interest, and usually redemption charges, which cannot be avoided as long as the borrowings are outstanding irrespective of the availability or otherwise of profits.

It is, then, important that the amount of prior dividend claims and fixed interest charges should be reasonable in relation to the size of the company, the nature and prospects of its business, and the degree of fluctuation in its earnings. Moreover, such a company is bound to concern itself with the margin of profit, not only to enable it to service the different types of capital, but also to enable it to build reserves out of which to provide for the long-term stability of the company and for its expansion and development.

Objective of Nationalized Boards

With regard to the nationalized fuel industries the originating statutes move the emphasis from the earning of optimum profit¹ to the covering of costs. Thus the statutes require that the relevant industries should at least break even. For example, the Coal Industry Nationalization Act, 1946, Section 1 (4) (c), requires that

'the policy of the Board shall be directed to securing that the revenues of the Board shall not be less than

sufficient for meeting all their outgoings properly chargeable to revenue account . . . on an average of good and bad years',

and the Gas Act, 1948, Section 41 (1), requires that

'it shall be the duty of each Area Board so to exercise and perform their functions under the Act as to ensure that the revenues of the Board are not less than sufficient to meet their outgoings properly chargeable to revenue account taking one year with another'.²

Source of Funds

At present, and subject to the temporary arrangement made under the Finance Act, 1956, the capital requirements of these boards are mainly met either in the form of advances from the Minister of Power, as in the case of the National Coal Board, or in the form of borrowings from the public with Treasury guarantee of the principal and interest, as in the case of the Gas Council and the Central Electricity Authority. Thus interest charges are necessarily incurred and, since the borrowings are redeemable, provision has to be made for redemption in accordance with the terms of the originating statutes or of orders made under those statutes. For example, the borrowings of the National Coal Board are redeemable over fifty years from the date of issue by means of terminable annuities – defined as fixed annual payments, of which the interest portion will decrease and the capital portion will increase year by year – in favour of the Minister of Power. British Gas Stock, on the other hand, is redeemable over periods to be prescribed by the Minister with the approval of the Treasury. In the case of each issue so far, the prescribed period has been ninety years from the date of issue.

Moreover, each of these nationalized industries has embarked upon extensive reorganization and development programmes which have called for and are continuing to call for heavy outlays of capital over long periods of time. So far the bulk of this capital has had to be borrowed, in accordance with the terms set out in the relevant statutes, so that capital servicing costs in each of these industries have been increasing year by year. The problem of importance, then, in these industries is not so much the

¹ Defined thus 'the maximum profit consistent with the long-range stability and growth of the company and the current economic and social conditions'. Keller, *Management Accounting for Profit Control*. (U.S.A., 1957.) Preface V.

² See also Electricity Act, 1947, Section 36.

ADVANCES TO THE COAL INDUSTRY AND STOCKS ISSUED BY THE GAS COUNCIL AND THE CENTRAL ELECTRICITY
AUTHORITY UP TO THE END OF THE FINANCIAL YEARS COMPLETED IN THE CALENDAR YEAR 1956

	£ million			Range of interest rates Per cent	£ million	
	For Com- pensation	For Capital Purposes	Total		Interest Charges	Interest plus Depreciation Charges
Coal	388.1	240.0	628.1	2½-5½	21.3	65.0
Gas	189.1	265.0	454.1	3-4	17.1	38.3
Electricity	341.9	825.0	1,166.9	3-4½	39.9	96.2

N.B. - (i) Some of these borrowings have since been redeemed.

(ii) Interest and interest and depreciation figures are those charged in the accounts for the financial year completed in the calendar year 1956.

adequacy of the profit margin but rather the impact of the capital servicing charges on costs and prices.

The following table indicates the extent of the borrowings made by each of these industries to the end of the accounting years completed in the calendar year 1956 and the burden of interest and depreciation charges debited in the accounts for these years.

Nature and Size of the Burden of Capital Costs

In considering the above figures the point of great significance is that much of the expenditure on capital account is incurred as a result of plans for expanding productive capacity, and to this extent must represent expenditure the benefits of which will accrue to future financial periods. For example, the National Coal Board states that

'the Board's most recent survey shows that with present techniques it takes on an average more than ten years to complete a new sinking and over eight years to carry out a big reconstruction'.¹

Accordingly, under present methods of treating capital costs, existing capacity is being made to carry costs which relate to investment in future productive capacity. It is reasonable to query whether it is equitable to include in current costs capital servicing costs in respect of the capital invested for the purpose of producing future benefits. The effect of doing so may be illustrated quite simply from the experience of the fuel industries where depreciation and interest and interim income per ton of coal produced rose from 3.07s in 1947 to 5.86s in 1956; depreciation and interest per therm of gas sold rose from 1.86d in 1949-50 to 3.47d in 1955-56; and depreciation and interest per unit of electricity sold rose from .29d in 1948-49 to .36d in 1955-56. The time lag between incurring this capital expenditure and the realization of its fruits means that present output

is being asked to absorb the costs of producing future output.

It is not unusual under private enterprise for future productive capacity to be financed out of past or present income, indeed, an adequate profit margin has been justified on the ground that retained profits are fast becoming the main source of finance for large industrial companies in this new industrial era.² The position, however, is somewhat different in the case of these nationalized industries. They have no significant reserves of past profits; they do not operate on the basis of making the optimum profit but of at least breaking even; and finally, the long-term objective is to reduce the prices of coal, gas and electricity. For example, the Gas Act, 1948, Section 1 (8), requires that

'subject to and in accordance with any directions given by the Minister . . . every Board shall reduce as far as practicable the price of gas and coke'.

A similar provision is to be found in Section 6 of the Electricity Act, 1947. In the case of coal, one point of view strongly held was that

'coal is so important to the economy that it should be sold at the lowest price which is consistent with the National Coal Board's covering its costs'.³

These are attitudes which are hardly consistent with capital building out of earnings to any great extent.

The Problem of the Capital Costs

This being so, it seems that careful consideration should be given to the overall requirement that each of these industries should raise an amount of revenue at least sufficient to meet its outgoings properly chargeable to revenue and more particularly to examine the nature and composition of these items as statutorily defined.

¹ Cf. Lord Chandos: Associated Electrical Industries Ltd. *Review of Year 1955*.

² Cmd. 8647/53, paragraph 66.

³ National Coal Board, 1956, *Investing in Coal*.

For example, the Electricity Act, 1947, Section 45, requests that

'the Central Authority and the Area Boards shall charge to revenue account in each year all charges which are proper to be made to revenue account, including in particular, proper allocations to the central reserve fund (but not including in the case of an Area Board, allocations to an area reserve fund), proper provision for the redemption of capital, and proper provision for the depreciation of assets, or for the renewal of assets, and all payments (including the payments which are by the relevant provision of this Act, or by any other relevant enactment to be deemed to be capital payments) which fall to be made in that year to any local authority under Part II of this Act in respect of any loan of that local authority and references in this Act to outgoings properly chargeable to revenue account shall be construed accordingly'.¹

Now it is axiomatic in accountancy that careful distinction should be made between capital and revenue expenditure and that there should be charged against the revenue of a particular period the revenue expenses properly attributable to that that period. It is submitted that in relation to capital servicing charges, this axiom is somewhat blurred and can result in undue pressure upon the Boards in their attempts to maintain prices reasonably steady.

Given that the ultimate objective is a plentiful supply of cheap fuel, the reorganization and development plans must go on, but in the light of the foregoing, the implications of this most desirable objective – at least in the short run – must be appreciated. To date, each of the fuel industries has been able to sell all that it is able to produce. Costs have been rising steadily as a result of the general inflationary pressure, and servicing charges in respect of capital borrowings have been increasing as a result both of inflationary pressure and the implementation of development plans. In general, increasing costs can be absorbed either by increasing the efficiency of production from present capacity, by increasing revenue by increasing saleable output, by increasing prices, or by a mixture of these. The fuel industries are constantly seeking to improve efficiency as a means of increasing productivity, but in the main it is recognized that substantial increases in productivity can only be achieved by utilizing greater productive capacity, that is, by realizing as soon as possible the investment plans.² Thus, at present, the capital servicing costs are tending to increase

more rapidly than the output available to absorb them, and consequently pressure to increase prices is inevitable. The tables set out on page 239 are significant in this connection.

Here, however, a further difficulty emerges, these Boards do not enjoy unrestricted freedom in fixing their own prices. Indeed, the Ridley Committee took the view that

'the determination of price structures should not be left entirely to the nationalized industries themselves'

and went so far as to recommend

'that the Minister should set up a small Tariff Advisory Committee of, say, five to seven independent members of suitable experience who would report to him either in response to his request for their advice or on their own initiative and whom he would invariably consult before approving major changes in tariff policies'.³

In addition, these Boards have to deal with the consultative councils, the duties of which include, *inter alia*,

'considering any matter affecting supply . . . including the variation of tariffs'.⁴

Finally, and probably the most fruitless procedures so far followed, are the arbitrary standstills on price increases in response to Government statements emphasizing the need to stabilize prices. A possible contribution to the problem lies in a proper treatment of these capital servicing costs to ensure that current income is only asked to bear the costs properly attributable thereto.

Suggested Methods of Dealing with these Costs

At present the full burden of servicing costs, irrespective of the purpose for which the capital is raised, is being borne as and when these costs are incurred, with the result that servicing costs per unit of output, as already indicated, are showing a steady rise. It should be axiomatic that in the ultimate these organizations should cover

¹ Cmd. 8647/53, paragraph 48 (5), page 13: 'How far shortage of gas making and electricity generating capacity will continue in the future must depend mainly on the extent to which investment resources can be found to build new plant, but the size of the gap may also be affected by the price policies applied.' or

National Coal Board Report, 1952, pages 17 and 18: 'Minor reorganizations and the replacement of obsolete and worn out equipment will not be enough to increase or even to maintain production. It is mainly in the carrying through of the really big schemes of reconstruction, each costing half a million pounds or more, that the achievement of the aims of the plan must depend.'

² Cmd. 8647/53, paragraph 254, page 63.

³ Gas Act, 1948, Section 9; also Electricity Act, 1947, Section 7; also Coal Industry Nationalization Act, 1946, Section 4.

¹ Similarly Gas Act, 1948, Section 49; similarly Coal Industry Nationalization Act, 1946, Section 30.

these costs, but it seems that asking them, in development periods, to bear the full costs as and when they are incurred, is by nature inflationary, since these costs must rise more rapidly than output. Moreover, these industries are customers of one another and their products enter into the production of most manufactured goods so that any increase in prices at this end of the scale is

rapidly reflected in increased prices for most manufactured goods and many services.

It is important then that price increases should be consequent upon the inability of these industries to cover current and not future costs. Perhaps the primary step ought to be to distinguish between costs in respect of capital expenditure necessary to maintain output or to increase out-

ELECTRICITY

	Units Sold (million)	Per cent Rate of Increase on Preceding Year	Income from Sales (£ million)	Per cent Rate of Increase on Preceding Year	Average Price per Unit Sold	Per cent Rate of Increase on Preceding Year	Depreciation and Interest (£ million)	Per cent Rate of Increase on Preceding Year
1947-49 ..	39,058	—	191.36	—	1.18	—	46.46	—
1949-50 ..	41,478	6.2	207.35	8.36	1.20	2.2	51.17	10.14
1950-51 ..	46,580	12.3	229.21	10.59	1.18	1.6	56.49	10.40
1951-52 ..	50,416	8.2	256.39	11.86	1.22	3.3	61.68	9.19
1952-53 ..	52,264	3.7	285.57	11.38	1.31	7.5	71.73	16.29
1953-54 ..	55,846	6.9	319.57	11.89	1.37	4.7	81.37	13.44
1954-55 ..	62,410	11.8	356.33	11.50	1.37	—	89.71	10.25
1955-56 ..	63,265	9.4	369.94	3.82	1.40	2.3	96.18	7.21

COAL

	Saleable output (million tons)	Per cent Rate of Increase on Preceding Year	Total Net Sales (£ million)	Per cent Rate of Increase on Preceding Year	Depreciation and Interest (£ million)	Per cent Rate of Increase on Preceding Year
1947 ..	184.7	—	367.1	—	30.3	—
1948 ..	195.5	5.85	452.5	23.26	32.9	9.57
1949 ..	200.7	2.66	474.1	4.77	33.1	0.61
1950 ..	202.3	.79	476.6	.53	35.9	8.46
1951 ..	209.9	3.76	535.8	12.42	38.2	6.41
1952 ..	212.2	1.10	630.4	17.65	41.3	8.12
1953 ..	210.5	—	676.2	7.27	48.9	18.40
1954 ..	211.8	.62	713.3	5.49	54.2	10.84
1955 ..	207.8	—	801.2	12.32	61.3	13.10
1956 ..	207.2	—	880.3	9.87	65.0	6.04

GAS

	Therms Sold (million)	Per cent Rate of Increase on Preceding Year	Revenue from Sales (£ million)	Per cent Rate of Increase on Preceding Year	Average Price per Therm Sold (Pence)	Per cent Rate of Increase on Preceding Year	Annual Depreciation and Interest Charges (£ million)	Per cent Rate of Increase on Preceding Year
1949-50 ..	2,328	—	—	—	12.55	—	16.7	—
1950-51 ..	2,460	5.0	233.5	—	13.00	4.0	20.3	21.6
1951-52 ..	2,513	2.1	261.0	11.8	14.09	8.4	22.7	11.8
1952-53 ..	2,524	.4	281.5	7.9	15.60	10.7	26.7	17.6
1953-54 ..	2,513	—	297.4	5.6	16.25	4.2	29.9	10.7
1954-55 ..	2,636	5.0	325.3	9.4	16.44	1.2	33.6	13.7
1955-56 ..	2,649	.5	346.1	6.4	17.71	7.2	38.3	12.3

Depreciation and interest per unit sold expressed as a per cent of average income per unit sold, emphasizes the increasing burden. Thus, gas 1948-49 14.8 per cent; 1955-56 19.59 per cent; electricity 1947-49 24.25 per cent; 1955-56 26.07 per cent. In the case of coal, the per cent remains stable in spite of frequent price increases.

put from existing capacity, and costs in respect of capital expenditure designed to provide increased productive capacity in the future. The latter group might then be treated on the lines indicated in the British Transport Commission's accounts for 1956, where a transfer is made to a special account set up by statute¹ to hold, as *The Times* of June 28th, 1957, stated:

'in suspense for subsequent amortization the extra costs and deficits of the period of modernization and reorganization and development'.

There seems to be no logical argument against extending this technique to the coal industry in respect of the capital costs of financing major reconstructions and new sinkings,² and to the electricity industry in respect of the nuclear programme in particular.³

It has been suggested that the development

period in the case of the gas industry is too far advanced to apply this technique now, for the 1956 report reads:

'provision must be made for prospective increases in demand, but for most Boards the peak of capital investment in plant has been reached, and the capacity of production plant under construction is beginning to diminish'.⁴

In any case the principle should be borne in mind in the event of any future sizeable development programme. Alternatively, a technique well recognized in accountancy, of capitalizing these servicing charges with the assets the capital is designed to produce and writing the full amount off to revenue over a limited period of time, might be employed.

Conclusion

These methods have one aim in common, that is, to relieve the current revenue accounts of the servicing costs in respect of capital raised to provide future capacity and therefore future benefits. Neither method seeks to relieve the industries of liability for these costs but merely seeks to associate the costs with the revenue produced by incurring these costs.

⁴ Gas Council. *Sixth Report and Accounts*, page 56.

¹ Transport (Railway Finance) Act, 1957, Section 3.

² National Coal Board considers any project with an estimated cost of £500,000 or more a major scheme.

³ N.B. — The Authority's programme of twelve nuclear power stations in ten years. *1954-55 Report*, paragraph 51, and paragraph 93 of the *1955-56 Report*, which reads: 'In contrast to coal-fired power-stations, the greater portion of the cost of electricity from present practicable designs of nuclear stations will arise from capital charges.'

NORTH AMERICAN COMMENTARY—LXXXIII

Current Accounting Opinions in the United States and Canada

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New Fields in Auditing

TO deal with the problems of divergence from generally accepted accounting principles in the audit of banks, non-profit organizations, insurance companies and railways, the American Institute of Certified Public Accountants has established four new committees. These committees work with the agencies and organizations concerned and, in the case of the railways, the Inter-State Commerce Commission has already promulgated as proposed regulations five out of six recommendations of the committee. The editorial sees in this the evidence of a growing acceptance of accountability in all segments of American society. It emphasizes the special responsibility thus placed on accountants, with the prospect of large new areas being opened up for them, but it warns of the danger that the public may expect too much before the

special accounting and auditing problems can be solved.

Accounting in the United States Post Office

Mr Maurice H. Stans, C.P.A., Deputy Postmaster-General of the United States, says that in 1953 there was no more perfect example of the need for new business practices than the United States Post Office. Here, he says, was the perfect opportunity to show the usefulness of accounting in business management. He tells how, from 1953, under a new Bureau of the Controller, later merged with the Bureau of Finance, separate divisions for accounting, budgeting, internal audit, systems and procedures, and cost analysis were organized. A thirteen-period fiscal year of four weeks per period was adopted for internal and management purposes, thus materially simplifying accounting work by permitting more accurate accruals and interim reports, and facilitating comparisons of mail volume and costs,

New Demands on Accountants

Referring to integrated data processing, quality control and operations research, and such modern aids in solving problems, Mr George R. Catlett, J.P.A., member of Council of the Missouri Society of Certified Public Accountants, attributes the profession's slowness in meeting the needs of management in this direction to a tendency of many C.P.A.s to confine themselves to book-keeping, auditing and tax work. He urges the necessity for accounting specialists in such a field as the application of large-scale electronic computers to accounting, but he would have the specialist first gain a broad and general experience for several years.

Illustrating modern training techniques, Mr Catlett says that his firm has been experimenting for years with the use of sound films and has found them very effective. His firm also offers small firms training materials, including films, and the use of its libraries and research data. Mr Catlett thinks there should be more referral of specialized work from one C.P.A. or firm to another. He would have more consultation of larger firms by smaller on special tax questions and other problems. Arrangements for consultations on a continuous basis, by letter, telephone or in person, should be possible, he thinks, fees for this service being billed periodically.

Depreciation on the Basis of Current Cost

It is reported that, perhaps for the first time, a State public utilities commission has authorized depreciation provision on the basis of cost repriced in current dollars. A recent decision of the Indiana Public Service Commission permits the Indiana Telephone Corporation to accrue depreciation on that basis and file an annual report showing depreciation accrued on the basis both of original cost and repriced cost. Dr W. A. Paton, of the University of Michigan, one of America's best known protagonists for common-dollar accounting, was one of those testifying before the Commission.

Experimentation with Statistical Sampling in Auditing

The American Institute's committee on statistical sampling is calling for information as to experimentation with statistical sampling techniques, specially by smaller accounting firms or individual practitioners in the audits of small businesses. It wishes also to know of any use of these techniques in the accounting or internal control procedures of such businesses.

*The Accounting Review,
Menasha, Wisconsin, July*

The Cost of Human Depreciation

American business men are beginning to realize, says Mr Cornelius Kurtz, president of Retirement Plans, Inc, that providing for the retirement of workers buys productive returns in addition to serving the workers' welfare and that, on balance, there seems to be a net gain to the enterprise. He classifies the deferred pay-as-you-go method of accounting for the cost as 'Robbing Peter, jun., to pay Peter, sen.' and he considers the funded or actuarial reserve method to be both realistic and prudent.

Mr Kurtz warns that, from the standpoint of management planning, the financial statements ought to reflect impending past service pension obligations even when they have not been formally undertaken. If pensions are regarded as an actual impending social obligation, although not formalized by contract, he argues that provision should be made, in financial estimates for management use, even though generally accepted accounting procedure requires the recording of legally established pension obligations only. Also failure to have a pension plan that must inevitably be adopted implies failure to take advantage of the tax benefits that attach and this benefit foregone may be regarded, he says, as one of the current costs of not having a formal pension plan.

*The Canadian Chartered Accountant,
Toronto, July*

The Statement of Source and Application of Funds

Miss Gertrude Mulcahy, C.A., of the accounting research department of the Canadian Institute of Chartered Accountants, reports that recent surveys have shown that, in the United States, the statement of source and application of funds has become an important tool for managerial planning, control and reporting. She reports one authority as saying that ten years ago about one-third of the audit reports of some ninety companies included in a survey contained a funds statement, as against over two-thirds today. But Miss Mulcahy comments that the trend in the use of the funds statement as an external report has not been nearly so pronounced. In Canada, she says, recognition of the statement as an integral part of the annual report to shareholders is still in the initial stages of development, but each year more Canadian companies are providing it for their shareholders.

FINANCE FOR PRIVATELY-OWNED BUSINESSES — I

Including Reorganizations to Facilitate the Payment of Estate Duty

by A. R. ENGLISH, A.C.A.

INTRODUCTION

The Statistical Background of the Privately-owned Business

BY the very nature of its constitution, since it has never sought from the investing public funds to finance expansion, the privately-owned business rarely ever ranks as a giant of industry. Nevertheless, even if they are on the smaller side, the importance of such units in the economic life of this country should never be underestimated. Whilst in January 1956 there were 1,129 manufacturing establishments in Great Britain each employing more than 1,000 persons, there were also over 38,000 similar units whose individual payrolls varied between 25 and 500 employees. In order to complete the picture, one must also take account of the 15,500 businesses employing between 11 and 24 persons. At that time there were 56,000 manufacturing establishments in Great Britain, employing altogether over 7½ million people, of which 54 per cent were working in groups of between 11 and 499.

(2) Impressive as these figures are, and it must be remembered that they refer exclusively to manufacturing activities, they still tend to underestimate the significance of the small business since the count is of manufacturing units and not of trading groups, incorporated or otherwise. The 1,129 units each employing more than 1,000 persons will include many establishments under common ownership. If allowance is made for this factor, the proportion of industry functioning as relatively small businesses becomes even larger than it would appear from a study of the figures just quoted.

(3) Business is carried on either by a sole trader, or as a partnership, or through a corporate body. Although reliable statistics concerning the aggregate invested capitals of the first two classes are extremely scarce, the overall importance of such businesses is considerable. The activities of these non-corporate businesses are very wide; they range from the small grocer's shop to the largest partnerships of ac-

countants, solicitors, stockbrokers, stockjobbers and, very occasionally, an industrial unit which has not sought the umbrella of limited liability. Another important and profitable occupation which still favours freedom from the legal trammels of limited liability is that of farming. As extensive as the activities of these elements of the economic life may be,

the pride of place, in terms of industrial activity, must be given to businesses carried on by limited companies. According to the General Annual Report of Companies for the year ended December 31st, 1955, there were in Great Britain 291,153 companies having a share capital on the Register at that date. Of this number, 279,949 were reported as private companies, of which over 81 per cent claimed the privileges accorded to exempt private companies.

(4) As is to be expected, in terms of issued share capital the public companies display an overwhelming superiority, for the same report assigned to 11,204 public companies a paid up capital of £4,340 million, an average of just over £387,000 per company, whilst the 279,949 private companies could only

muster paid up capitals of £2,471 million, an average of about £8,800 per company. These figures take no account of accumulated profits and reserves, the other main source of capital. As there is always a tendency for a public company to keep its issued share capital more in line with the true capital employed, than in the case of a private company, it is reasonable to assume that the private sector's relative size is greater than the figures just quoted. Unfortunately, there are no separate figures for exempt private companies, but, in view of their overall preponderance in the general statistics, it seems reasonable to consider them as following the general pattern.

(5) Since it is virtually impossible for an incorporated body to finance an unincorporated business except as a secured or unsecured creditor, it is not proposed in this paper to consider how the sole trader or partnership should be financed. A condition precedent for the infusion of money into a business in any other form must be the incorporation of a limited liability company. This may well be one of the reasons



Mr A. R. English

The first part of an address delivered on July 13th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

why the number of private limited companies in Great Britain has increased from 178,558 at December 31st, 1945, to 279,949 at December 31st, 1955.

Characteristics of the Privately-owned Business

(6) Before passing to the problem of financing the privately-owned business, the 'close corporation' of the Royal Commission on Taxation, and 'the family company' to most of us, it might be profitable to pause and consider some of the special characteristics and problems of such companies; for here lies the root and cause of many of the difficulties encountered when outside financial help is sought.

(7) Throughout the nineteenth century and the beginning of the twentieth century a low level of taxation, of both income and capital, allowed the successful business man to accumulate capital with which to back new ventures or to expand existing businesses. In risking his own money, he was his own judge of proper risks, and in prosperity or failure could blame no one but himself. This willingness to risk bred a rugged individualism and in many cases after a generation or so often engendered an intense family pride. Many would almost forget that their family company was a legal entity distinct from themselves and, with due regard to the rights of creditors, would treat its assets as their own, as indeed they might be at one stage removed. That such pride in a family company has often resulted in the building up of outstanding businesses nobody can gainsay, but if, with the passing of a generation, the calibre of a family has changed and the quality at board level has deteriorated, family pride becomes a handicap. With the shareholders of a privately-owned company there is not the pressure of public opinion to force aged directors to resign or to prevent the appointment to the board of young and, perhaps, immature family connections, or to ensure the elevation of able non-family executives to the board. There is always the other danger that an autocratic elder generation, using the fear of disinheritance, may compel a younger and more enterprising generation to follow a business policy out of touch with current conditions.

(8) In many family companies the business revolves round the personality of one individual, perhaps the founder or the man who has been responsible for building it up to its present size. Very often such a man is incapable of delegation, or perhaps the business is not large enough to carry seconds-in-command of the right capacity, so that his sudden demise would leave the company bereft of its mainspring. Today, with the threat of the loss of an employer's contributions to a pension fund on a change of employment, it is often impossible to offer terms sufficiently attractive to make a mature executive, enjoying pension fund rights, willing to change his job. To buy at short notice the services of a suitable man, which may be a gamble of the first order, can be an expensive investment.

(9) Taxation too has an important place when considering the privately-owned business as a subject for investment by those outside the family group. Invariably the link between shareholders and executive officers is closer in the family business than in the public company. The tendency to divide profits in such a manner as to reduce taxation to a minimum causes little or no hardship if the members of a private company elect to take their reward by way of enhanced salary rather than by way of dividend. Although the complexities of profits tax may cause headaches, the advantages of earned income relief, wife's earned income allowance, coupled with a spread of salaries over members of the family and the disadvantage of paying extra profits tax on dividends, are apparent to most professional advisers of family businesses. To introduce a partner who has a vested interest in seeing profits, reported on a commercial basis, and distributed by way of dividend, can give rise to much heart searching.

(10) The great personal pride of the members of a family company in their business is often coupled with intense secretiveness. The pleasure which they derive from the expectation that the neighbours will know of their wealth when they have left this world is often linked most closely with the intention that, in their lifetime, nothing shall be known about their business. The privileges of an exempt private company are not lightly surrendered.

(11) It is not the purpose of this paper to attempt to analyse in detail the strength and the weakness of privately-owned business companies, but without an appreciation of these matters it is impossible adequately to consider their financial problems. Since these matters will loom large in the mind of the man who is to consider the making of the investment, I feel that we should study the resources and responsibilities of investment managers before considering the various forms in which the sought-for finance can be obtained.

RESOURCES AVAILABLE TO FINANCE PRIVATELY-OWNED BUSINESSES

Insurance Companies and Pension Funds

(12) Ideally, businesses should be built up out of retained profits and the outside savings of the initial shareholders. The present high rates of taxation, and the special taxation difficulties of the family company, have so restricted such sources that companies wishing to expand at more than a modest rate now have to seek capital from outside and, in particular, from the so-called 'institutional investor', that nebulous person who, at the present time, has the largest amount of money available for long-term investment.

(13) It is indeed a paradox that high taxation should deprive companies of money with which to finance expansion and at the same time encourage schemes whereby the funds of such institutional investors steadily increase. The explanation is, of course, simple; the taxation relief afforded to the

payer of life assurance premiums and pension scheme contributions, including as it does the self-employed person under the 1956 Finance Act, has resulted in a vast increase in the money passing into the control of specialist institutions such as:

- (a) mutual and proprietary life assurance companies dealing in life assurance, pension schemes and annuities;
- (b) insurance companies, mainly proprietary, underwriting fire, marine, accident and other non-life risks;
- (c) composite offices whose activities cover both the life risks and the non-life risks mentioned in (a) and (b) above;
- (d) self-administered pension funds of large public and private companies and the nationalized industries.

(14) In its British Insurance supplement of July 14th, 1956, the *Economist* considered the asset distribution of forty-four large offices covering (a), (b) and (c) above. In total, these assets rose from £3,812 million at December 31st, 1954, to £4,096 million at December 31st, 1955. Of this increase, £102 million were invested in preference and ordinary shares, thereby bringing the total invested under these headings to 21.8 per cent of the aggregate assets under analysis. When it is realized that these funds may well continue to grow at the rate of £250 million a year, the future importance of this source of capital will be appreciated.

(15) Statistics regarding the investments of the self-administered pension funds are not so complete. An inquiry made by The Association of Superannuation and Pension Funds in 1954 revealed that 682 of the privately administered funds operated by its members had accumulated assets of £716 million and were collecting annually from employers and employees £75 million. All members of the Association did not answer the questionnaire, neither was it sent to non-members. To that extent these statistics were an under-estimate, but even with such incomplete figures it must be accepted that the investment potential of the privately administered pension funds represents an important source of capital.

Investment Trust Companies and Finance Corporations

(16) The foregoing does not, of course, exhaust the list of professional providers of long-term capital. Other sources include the investment trust companies, building societies, and the special business finance corporations. Each of these classes has a *raison d'être*. Whoever manages their investments or formulates their investment policies must conform to that factor. In the case of investment of pension fund contributions or life assurance premiums, the investment manager must never forget that he is investing to cover a contract which may have a life of sixty years or even longer. At the other end of the scale, part of the investments of a company or fund issuing life or fire policies must be realizable almost at call.

The manager of an investment trust, whose main chance of expansion is by the raising of new money either as loan or share capital, has to maintain a balanced portfolio to iron out economic and financial fluctuations. Building societies, although they borrow on fairly short-term methods, invariably have a hard core of capital which can safely be lent long-term, but of course there is a limit to the amount they will invest in mortgages on industrial property.

(17) There are also a number of finance corporations specializing in the provision of finance for the privately-owned business and companies not well enough established to seek stock exchange quotations. In addition there are some investment trust companies whose main function is considered to be the furnishing of financial assistance, by way of purchase of shares in privately-owned companies, in connection with the solution of present or potential estate duty problems. Although the funds available to such finance corporations and investment trust companies vary enormously, they have one thing in common: none of them has any direct or indirect Government subsidy. They have to justify themselves by the normal commercial yardstick of profitability. That, in itself, creates special investment problems. The necessity to secure a spread of industries, and an acute awareness of managerial deficiencies, especially in relation to investment in irredeemable preference and ordinary shares, coupled with limitation of resources under the present credit squeeze, must cause a high degree of selectivity to be maintained.

Taxation Problems of Investment Managers

(18) To pursue the special objects and difficulties of every class of investment manager would not add much to our knowledge of the problem of financing the privately-owned business. The few words of explanation given will, it is hoped, highlight some of his problems and the reasons why his investments in certain ways and in certain directions may be restricted. In presenting a paper to men fully aware of the implications of taxation, it might not be inappropriate to point out that the taxation treatment of the various classes of investors discussed above varies considerably. A pension fund entitled to relief at the full standard rate may not view with enthusiasm a dividend with a large double taxation relief content and would prefer a higher interest rate to a possible capital gain from buying at under redemption price. This might not be the attitude of the manager of an investment trust company, free of tax on capital gains. Profits tax with its franked investment income is another factor which influences investment policy.

FORMS OF FINANCE

(19) To limit any consideration of capital to the funds represented by share capital and accumulated profits, is far too narrow a concept in this age of rapidly changing techniques. Indeed for businesses requiring heavy investment in fixed assets it would often be wellnigh impossible to earn a reasonable

return on share capital unless it is geared by some form of loan capital.

(20) Therefore, to complete our study of finance we must run the whole gamut of the financial scale and consider all forms of loan and share capital.

Long-term Loans

(21) To the members of the majority of the privately-owned businesses loan capital has the greatest appeal as the means of introducing outside capital. The interest thereon, with certain exceptions, is not regarded as a distribution for profits tax purposes. In fact it reduces profits tax liabilities. The rate charged is usually less than for money subscribed as shares, and, most important of all, once the debt has been repaid the unwelcome, although necessary, intruder can be given his *congé*.

Various forms of security

(22) In the normal course of business, the greater the security the finer the rate, although every would-be borrower should never forget that words alone do not create adequate security. Risk lending is no less risky because the document of charge is called a First Mortgage Debenture. To constitute a good security the asset charged must be identifiable, capable of sustaining a valid charge in law under all circumstances, and potentially realizable at any time and under any conditions. For that reason, because of their specialized nature and/or location, many factories, plant and machinery cannot be regarded as ideal security, since their values may depend too greatly on the economic conditions of the industry and district in which they operate.

(23) It is unfortunate that the division of assets in the balance sheet under the headings Fixed and Current has given rise to much misconception as to the assets covered by a fixed charge on, say, a factory and the plant and machinery contained therein. In practice, unless specifically scheduled, much of the plant and machinery designated as a fixed asset in the balance sheet is so loosely attached to the factory housing it that it can never fall under a fixed charge. Indeed, it is surprising how much plant and machinery can float away from a fixed charge when a Receiver is appointed!

(24) To cover this possibility, if the fixed security is felt to be inadequate, a loan can be secured by a first fixed and floating charge whereby all assets fall under the debenture. To give such an overall charge can have a detrimental effect on the relationship of the company to its bankers. The latter may well feel that unless security, from within the company or without (by guarantees by the directors or substantial shareholders), is forthcoming, no overdraft facilities can be made available. To meet this position it is often possible to arrange a 'sandwich' scheme with the bank whereby the holder of the debenture agrees to allow the bank to rank ahead of his floating charge to the extent of an agreed amount, or a sum related to the anticipated realizations of stated assets, i.e. stock or debtors.

(25) Of course, the most pleasing form of long-term borrowing, other than a saving in interest rates, is the unsecured loan. No charge has to be registered. The debtor's credit rating remains unimpaired; indeed the raising of an unsecured loan from a reputable lender may cause outsiders to upgrade the status of the borrower, especially if it is known that the lender has stipulated that the company shall not create any charges on its assets without the lender's prior consent.

Terms of repayment

(26) To the institutional investor lending funds to the privately-owned business, since there will be little chance to sell the investment, a reasonable scheme of repayment is a condition precedent. This, of course, accords with the views and wishes of the prospective debtor, who is usually only too anxious to get rid of his creditor, especially if interest rates were high when the money was raised.

(27) Curiously enough, it is this common desire which frustrates many schemes of financing privately-owned businesses. To many business men, and, it must be admitted, their professional advisers as well, it seems irrational that a company cannot have an unrestricted right to anticipate repayment, especially if it has money available or can re-finance the debt on more favourable terms. This, of course, is only one side of the picture; the essence of a long-term debenture is its permanence of rate and repayment, and since few debentures contain provisions which would enable the lender to increase the rate of interest if money became more expensive, a unilateral right to withdraw from an unfavourable contract can never commend itself to the supplier of the money. There is the further point that the institution originally furnishing the money was in all probability investing against its own long-term liabilities, under contracts which cannot be changed at will.

(28) It therefore behoves all who raise money on long-term loans to endeavour to see that the borrowing document gives the debtor the right to anticipate repayment and to remember that one should not be too keen on the price payable if such option is exercised. The borrower should realize that the lender knows that such option will not be exercised unless it suits the borrower, and then most likely at a time inconvenient to the lender.

(29) When considering the life of the loan and the terms of repayment, the purpose for which the money has been raised is often relevant. The requirements of the lender must also be considered, for if the security is good, present high interest rates cause many institutional investors to seek as long a life as is practicable. In the case of a private company, a life of between seven and twenty years is usually considered appropriate under terms which require the whole debt to be repaid by equal instalments at half-yearly or yearly intervals. Whilst equal capital instalments may be suitable for the smaller borrowings up to, say, £200,000, for larger sums the sinking fund method is preferable. Under the first method

the borrower has to find the largest amount in the earlier years, since the net interest on the whole debt has to be found as well as the fixed capital repayment, whilst under the second method there is a fixed annual payment so calculated that the capital element rises as the interest charge falls by reason of previous repayments.

(30) An alternative method is the purchase of a capital redemption policy. Under this scheme the debt and the interest charge remains constant. The cash set aside for repayment is invested annually in a policy which, with accumulated interest, will equal the amount to be repaid at the end of the life of the loan. In weighing up such a scheme the factor to consider is the amount of interest which will be ultimately included in the maturity value of the redemption policy. Whilst not forgetting that in the hands of a trading company such a loading will be free of tax as a capital gain, the would-be borrower should always remember that the interest allowable on such a policy is as important an element in calculating the cost of such finance as the interest payable on the advance.

Taxation difficulties

(31) The capital gains of certain classes of institutional investors are free of tax. Naturally this factor causes considerable weight to be attached to the subscription of loan capital at less than par and/or the final redemption at a premium. As attractive as this method is to the investor, it has one serious disadvantage to the borrowing company if it is director-controlled. The effect of Section 31 (2), Finance Act, 1956, is that any amount applied by such companies in repayment of a loan made by anybody who happens to be a member in excess of the net amount or value received by the borrower is to be regarded as a distribution for profits tax purposes. Another unfortunate aspect of this particular section is its retrospective effect. No amount falls into charge until the total capital sum repaid equals the actual cash borrowed or consideration given. Thus all discount or premiums paid prior to the passing of the 1956 Act will, in the majority of cases, have to be treated as distributions of the year in which the debt is finally repaid.

(32) Not all classes of institutional investors are attracted by the charm of tax-free capital gains. Quite important groups, including approved pension funds, are exempt from income tax and recover all tax deducted at the source. To such investors any financial scheme which savours of an annuity free of any capital element can be an attractive proposition since there will be gross and not net income with which to amortize the ultimate capital loss. It is this special position which has led to a number of buying and leasing back property arrangements. The prerequisite element of such a scheme is the ownership of uncharged land and buildings capable of carrying a lease at a substantial rent for at least fifty years. If a company in possession of an asset of that

type wishes to raise capital by such method, it sells such property to a pension fund for a capital sum and in return is granted a lease for, say, fifty-one years, on rental terms which will enable the purchaser to amortize his investment in a reasonable time, with, in some cases, an option to buy back the property at reducing figures, on specified dates. Under such an arrangement, the lessee treats the rent as an annual payment and deducts income tax thereon at the standard rate. If the recipient is in the category of investors already mentioned, the income tax so deducted at the source will be recovered in full. There is also the added advantage to a tax-free investor that no double tax relief restrictions are likely to arise from income of this kind.

(33) As attractive as such a proposal may appear on the surface to the company wishing to raise capital by such means, there are a number of practical difficulties. The creation of a large rent charge may have repercussions on rating values. The first repurchase option date may be far later than the date by which it is expected that a loan to raise a like capital sum would have been repaid. The obligation to pay the rent is attached to the company as well as to the property; failure to find a buyer acceptable to the landlord may hamper expansion schemes if the company is successful and wishes to move to larger premises. Equally a large fixed rent can prove a serious brake on attempts to reduce activities and overhead expenses if the tenant company is passing through a period of trading difficulty. Some investors will not allow any repurchase rights to be written into the tenancy agreement. Under a lease without such a right, the vending company has parted in perpetuity with the equity of the property sold—a serious step to take unless one is certain that inflation has been stayed for ever.

(34) The incidence of profits tax, through its taxation dividends, has led to much distortion of capital structure, with an emphasis on overborrowing. To overcome this difficulty and to allow the possible investor time to watch the progress of the business, there has developed the vogue of raising a loan with an option giving the right, for a specified period, to convert the whole or part of the advance into ordinary shares at agreed values. Carefully developed, such schemes can keep at a minimum the cost of raising new money if conditions are such that the lender insists on safeguarding his right to have, ultimately, an equity interest. Of course, every company is not bound to raise money by long-term borrowing; there is always the possibility of medium- or short-term finance. Of the first type, the best known method is by way of hire-purchase agreements.

Medium-term and Short-term Finance

Hire-purchase

(35) Although under present regulations an initial deposit of 33½ per cent has to be made, hire-purchase of machinery, plant and transport is a means of finance no privately-owned business should neglect.

It must be accepted that the true interest rate is high, ranging between 12 per cent and 16 per cent, but this is in part compensated by the absence of legal charges, commission, and similar expenses. Since, under the terms of the majority of contracts, the property or the goods do not pass until the completion of the hire period, no charge on the borrowing company's assets has to be registered to the possible detriment of its commercial credit. As the life of the agreement rarely ever exceeds two years, even with a 33½ per cent deposit, capital repayments can be substantial. For this reason hire-purchase should only be regarded as suitable for the financing of an asset having a relatively short life (transport is a capital investment which readily falls to mind) or can earn profits rapidly in the early years of its life. To fill a factory with expensive long-life machinery acquired on hire-purchase can result in the repayments absorbing so much profit in the initial period as to cause acute shortage of working capital. Machines without the necessary raw materials can be an expensive luxury. Therefore when considering this form of finance endeavour to see that a happy medium is struck; excessive reliance on hire-purchase can end in disaster.

Bank overdrafts

(36) No study of finance for privately-owned businesses can be regarded as complete unless the role of the clearing banks is considered. Many a business has been carried through a crisis and helped to prosperity by a discerning bank manager. The keynote of bank borrowing is its economy and flexibility. Interest is paid only on the money actually borrowed, although, of course, charges for operating the account may be made as well. In an emergency, agreed overdraft limits may be raised, and few bankers have inhibitions against security being provided by way of third party guarantees or deposits of security. The proximity of the bank manager to his customer is another factor which should always enable the would-be borrower to secure the maximum assistance from his bank. Like all props, the bank overdraft should never be expected to take too much weight. No company should ever find itself in the position of having a 'hard core' of bank borrowings which is never likely to be repaid so long as the company continues to trade, and perhaps expand. In the first place, a 'hard core' denotes permanent borrowing, and it is not the function of a bank to supply permanent capital, and secondly, such a solid block may well prevent the giving of additional temporary facilities required to tide over an emergency. As already emphasized, the essence of bank borrowings is flexibility. This redounds to the advantage of the bank as well as the customer. Many indeed must be the companies, public as well as private, who, under pressure of the present credit squeeze, wish that the hard core of their bank overdraft had been funded two or three years ago.

(37) There can be no hard and fast rule as to the

extent to which a company should rely on its bankers. I would, however, suggest that the directors of every privately-owned business company should keep this matter constantly under review. If part of the overdraft shows signs of solidifying and there appears to be no chance of reduction in the normal course of business, the question of introducing outside capital should be considered with the greatest care. To fund any debt may be expensive at the present time, but as soon as conditions become more settled the difficulties of the past months should spur all concerned with finance to see that the short-term financial position of their company is put on a proper basis – and that does not mean just exchanging a quick liability for a long-term loan.

(38) No company should rely exclusively on borrowed money; a proper balance must be maintained between loan and share capital. The detrimental effects of overborrowing need not be emphasized; increasingly high interest rates, restriction on business activities and on the disposal of assets and future borrowings are common symptoms.

Share Capital

Preference shares

(39) An important aspect of the infusion of share capital is the widening of the platform on which to raise further loan capital, but before there can be any question of issuing preference share capital there must be a business with a past record to prove that there are profits with which to pay the envisaged dividends and sufficient net assets to cover the capital to be invested. To the owners of the ordinary share capital of a successful company requiring additional share, as distinct from loan, capital an issue of preference shares is a most attractive method. Dividends, even if cumulative, need only be paid out of profits, so that in a bad year resources can be conserved, whilst if success attends the company, the capital interest of the subscribers to the preference shares is usually restricted to par or par plus a small premium. It is not difficult to appreciate that these factors have a reverse reaction on the mind of the provider of capital. He feels that, as an investment, preference shares are on the 'heads I win, tails you lose' basis, especially if there is no chance of realizing the particular investment. Indeed, so strongly is this view held by the majority of institutional investors that it is almost impossible to place an irredeemable preference share in a private company. Therefore, in preparing any scheme of finance involving the issue of preference shares, it should be on the basis of a share with fixed redemption terms and dates. These, of course, must be a matter of negotiation depending on all relevant factors, but, if the investment is considered to be particularly attractive, a life of fifteen to twenty years may be required at the present time. The insistence on the payment of a premium on redemption is a penalty which many borrowers find hard to accept. The reason for this requirement is simple. No investor

likes to face a capital loss, however small, when closing his book and as, when buying shares, a premium of 5d in the £ by way of a 2 per cent stamp duty has to be added to the cost of the investment, it is only natural for him to expect to recoup that sum, plus interest thereon, on final repayment.

(40) Here, too, a taxation problem arises, for Section 31 (1), Finance Act, 1956, enacts that any sum applied in reducing share capital in excess of the nominal amount of a company's paid up share capital so affected shall be regarded as a distribution for profits tax purposes. There is, however, some relief from the rigours of this section in the case of preference shares redeemed at a premium. Section 31 (4), Finance Act, 1956, provides that in such cases if the company can establish that the premium in question was provided out of a 'share premium account' no additional profits tax liability will arise. Since it would appear that any class of shares can contribute to such 'share premium account', the obvious step would be to issue other shares at a premium before the redemption of the preference shares.

(41) However definitely the terms of redemption of redeemable preference shares may be stated in the company's articles of association, the conditions laid down by Section 58, Companies Act, 1948, that:

'no such shares shall be redeemed except out of profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purposes of the redemption'

can never be overridden. So far as I am aware, there has never been any decision in the Courts as to the rights of the holders of redeemable preference shares if the holders of the ordinary shares had rearranged, by bonus issues of ordinary shares, the reserves of a company so that at redemption dates there were insufficient profits available to service the redemption and the directors refused to sanction a fresh issue of share capital. Such an attitude on the part of the directors could give rise to a most difficult position and since the holder of redeemable preference shares in a private company has not the sanction of public opinion behind him, this possibility introduces another factor depressing the investment value of such shares.

Participating preference shares

(42) With the present awareness of the dangers of inflation, it is only natural that the institutional investor should seek to protect his portfolio by insisting whenever appropriate that the yield on preference shares is improved by rights giving participation in profits. Indeed, by offering such an interest in future profitability, it may be possible to negotiate a lower fixed rate of dividend for the cumulative portion of the dividend. The ways of calculating the participation are manifold. In the case of a privately-owned business it is usual to stipulate a basic cumulative rate with a participation calculated as a percentage of defined profits, a

figure which may be after deducting what is considered to be an appropriate dividend to the ordinary shareholders. Since, as has already been explained, there is not the urge in the private company to pay ordinary share dividends or to maintain a consistent ordinary share dividend policy, it is rarely ever satisfactory to relate the participating element of the dividend to the dividends paid on the ordinary share capital; hence the insistence on the link with profits earned, as distinct from those distributed.

(43) If the company is successful and large participations are paid, there must always be the temptation for the holders of the ordinary shares to endeavour to eliminate that class of prior charge by redemption, if possible, or by a winding-up. To counter such bright ideas, since no professional investor can exist on the premature repayment of all profitable investments, it is usual to find that participating preference shares can only be repaid or liquidated at a substantial premium.

Equity shares

(44) Just as it is possible to overborrow and upset the balance between loan and share capital, so it is possible to create an unrealistic share capital structure overburdened with priority dividends. There must always be a block of capital carrying the ultimate risk and sharing to the full in all residual profits and losses. This is a matter of fact and the shares so affected do not lose their risk element by being given high-sounding names. To the owners of the equity of a company with a highly geared capital structure the outlook is most pleasing, but since the provision of finance is a partnership of money and ability, the prudent provider of risk money is usually unwilling to run the risk of a loss without a comparable chance of sharing in the gains. Hence in all companies, public as well as private, if there is a risk element, the knowledgeable supplier of money will refuse to participate unless assured of an immediate or future interest in ordinary shares. The issue in January 1957 of Unsecured Loan Stock by Imperial Chemical Industries, with options to convert into ordinary shares, is an interesting example, although in this case the option may have resulted in a lower rate of interest being offered.

(45) As attractive as an ordinary share can be to the institutional investor its merits fall rapidly unless there is an assurance that reasonable and regular dividends will be paid. To the directors of most privately-owned companies the payment of a dividend on the ordinary share capital is an anathema. If the family wants more income it is usually far more economical, in terms of taxation, to distribute profits by way of increased salaries, commission, directors' fees and, perhaps, less licit fringe benefits, than to pay an ordinary share dividend with its consequential profits tax distribution charge; a state of affairs further emphasized by the relief given to that part of the increased salary used to pay retirement premiums under Sections 22 and 23, Finance Act, 1956.

Convertible preferred ordinary shares

(46) It is to reconcile this divergence of interest between the private holder, who is not interested in distributing the bulk of his profits, and the institutional investor, who expects a reasonable and regular return on his capital investment, that one now finds in the capital structure of privately-owned companies Convertible Preferred Ordinary Shares.

(47) As many privately-owned companies distribute very little by way of dividends on their ordinary share capital, it would, in many cases, be impossible to agree satisfactory terms for the sale of, or the subscription for such shares with an institutional investor, since the dominant factor in such negotiations will be the dividend yield on the actual cash investment. To raise the rate of dividend, which may well be within the capacity of the company to pay, to such a level as to bring the market value of the ordinary shares into line with the actual worth of the underlying assets could involve the company in increased profits tax charges and raise the statutory income of the non-institutional members to such a level as to result in virtual confiscation of the increased dividends by way of surtax. To surmount this difficulty, and it must never be forgotten that there must be no discrimination between members of any class of share, it is often convenient for the institutional investor to buy the ordinary shares at a price which would be fair if a reasonable dividend policy were in existence, on the footing that the shares so acquired are immediately changed into 'Convertible Preferred Ordinary Shares'. These shares would carry the right to annual dividends, which might or might not be cumulative, at a rate envisaged at the time of the negotiation plus an additional participation should the rates paid on the ordinary share capital be raised above the negotiated figure. Of course, if the rates of dividends paid on the ordinary shares fell below the negotiated figure, hardship would arise when the holders of the 'Convertible Preferred Ordinary Shares' exercised their right to convert such shares into ordinary shares. To meet this possibility, provision would have to be made to compensate the ordinary shareholders for any shortfall of income.

DIVISION OF EQUITY INTERESTS AND VOTING RIGHTS

(48) The correct balance of interest in equity capital as between the institutional investor and the persons operating the company is always hard to achieve. With the present high rates of income taxation the prospect of future free of tax capital gains is one of the few inducements which can be offered to the men whose efforts cause the wheels of commerce to revolve. Nothing can be more shortsighted than for a professional investor to insist on restricting the ordinary shares available to the working directors - by so doing one of the most important incentives is being removed. The most successful company is that in which both capital and

executive ability are in close partnership. This state of affairs can never develop if either party feels that it is labouring under a grievance.

(49) Although most institutional investors are usually anxious to avoid finding themselves in the position of controlling a company through a holding of ordinary shares, quite a number insist that their holding of such shares must always exceed 25 per cent of the shares under issue. The reasons for insisting on a holding of this size are manifold. In the field of taxation a most important aspect is the denial of the right, which could prejudice most seriously a minority shareholder, to pass profits from a profitable to an unprofitable company by means of a subvention payment under Section 20, Finance Act, 1953. From the company law angle the holding of a block of shares giving control over 25 per cent of the votes which can be passed at a general meeting, can effectively stop the passing of a special resolution - Section 141, Companies Act, 1948.

(50) Whilst perhaps 25 per cent + is the minimum holding of ordinary shares which many institutional investors would wish to carry, there are certain corporate investors willing, subject to proper safeguards, to hold less than that percentage, although there are few who are prepared to have a stake of under 10 per cent +, i.e. a holding sufficiently large to prevent pre-emption under Section 209, Companies Act, 1948.

EXEMPT PRIVATE COMPANIES

(51) At the beginning of this paper reference was made to the high percentage of private companies who claim the privileges afforded to 'exempt private companies'. To bring in an institutional investor need not result in a forfeiture of these advantages. Although the basic conditions for the maintenance of the exempt company status are that no body corporate shall be the holder of shares or debentures in the company, there are exceptions for banking or finance companies providing finance if the shares of such companies are quoted or dealt with on a recognized stock exchange or the company is designated as a 'banking or finance company' by order of the Board of Trade. It is of interest to note that it is not necessary for the body corporate to trade with a view to profit in order to secure such designation from the Board of Trade. Certain of the largest privately administered pension funds have been so designated and, in consequence, may hold investments in exempt private companies, without impairing their status. This exception is, however, restricted by the proviso that the designated company or companies, if there be more than one, must not have the power 'to exercise or control the exercise of one-fifth or more of the total voting power at any general meeting of the relevant company'. To overcome this difficulty it is often provided that the class of shares held by the institutional investor shall carry no votes at an annual general meeting unless special circumstances prevail.

(To be continued.)

Weekly Notes

The Association's Examination Results

The results of the June 1956 examinations of The Association of Certified and Corporate Accountants show that a total of 2,078 candidates sat, of whom 672 were successful.

In Section I of the Final there were 645 candidates, of whom 174 (27 per cent) passed. The First Place and Prize were won by Mr J. T. Kemp, of London, who repeated his achievement of June last year when he won the First Place and Prize in the Intermediate examination. The Second Place was gained by Mr R. S. Webber, of Coventry.

In Section II, 217 candidates (45 per cent) passed and 266 failed. The First Place and Prize was awarded to Mr V. R. Turton, of Solihull, and the Second Place to Mr W. F. Parkes, of Nottingham.

There were 784 candidates for the Intermediate examination, of whom 216 (27.6 per cent) were successful, the First Place and Prize being won by Mr J. P. Shalders, of London.

The names of the successful candidates in Sections I and II of the Final, together with a full summary of the results, appear elsewhere in this issue.

Public Trustee Report

Next January will mark the golden jubilee of the office of the Public Trustee. Its forty-ninth report, for the year ended March 31st, 1957, has just been published (H.M.S.O., 6d net). The report records that the Manchester office was closed in September 1956, this being in accordance with the recommendation of the committee which reported a few months earlier, and whose report we considered in these columns in our issue of May 26th, 1956. The office took up 393 new trusteeships during the year, with an aggregate capital value of nearly £7 million. A total of 939 trusts were entirely distributed and the number of current cases at the end of the year was 16,763, with a capital value of nearly £248 million. The total expenses were £554,197, against fees and credits of £568,540. Losses through breach of trust, mistake, etc., amounted to £11 only, a figure which brings the total losses of this kind for the last nine years to only £537 – a truly remarkable achievement. It is a pity that the facilities offered by the Public Trustee are not more widely known.

Balancing Charges and Surtax Directions

Section 245 of the Income Tax Act, 1952, gives the Special Commissioners powers in certain circumstances to make a direction on a company, apportioning its 'actual income' among the members for surtax purposes. Does this phrase 'actual income' include a balancing charge made on the company under Section 292? In *C.I.R. v. Wood Brothers (Birkenhead) Ltd* ([1957] 3 All E.R. 147), the Crown claimed that it did, but its argument was rejected both by the Special Commissioners and by Harman, J.

The company had sold its business and ceased trading on April 28th, 1951, and on April 16th, 1952, it went into voluntary liquidation. Accounts for the year ended April 28th, 1951, and for the period from that date to April 16th, 1952, were not certified until May 7th, 1952, and it was common ground that the actual income for both periods was apportionable under Section 245. There was a balancing charge of £18,675 in respect of the period, and the Revenue sought to add this to the admitted income of £57,589 for the purpose of computing the 'actual income' for apportionment. In the course of his judgment, rejecting this, Harman, J., said that if 100,000 people were asked whether a balancing charge levied on a company was its 'actual income' every one of them would say, 'no, because it is not income at all'.

Non-voting Shares

The changes in the Stock Exchange rules relating to permission to deal, which we examined last week, contained no reference to non-voting ordinary shares. In view of the widespread and influential criticism of such shares in the past few months, the Stock Exchange might well be expected to make some comment one way or the other, and this has now been done by means of a separate circular. The circular says that the Council of the Stock Exchange 'do not look with favour on the voteless equity share, and have taken such steps as are open to them to ensure that the public are not misled as to what they are buying or being offered'.

However, the Council do not consider it justifiable to use the 'high-powered sanction' of refusing a quotation to non-voting shares, 'which would have the effect of taking away from companies powers which they legally possess'. The circular goes on to stress the practical difficulties and concludes by saying that the proper remedy is an amendment of the Companies Act.

The circular is not a very logical document. If all a company had to do to obtain a stock exchange quotation was to comply with the Companies Act, there would be no need for any of the extremely elaborate rules relating to permission to deal. No company is obliged to issue non-voting equity shares, and it certainly would not do so if it wanted to have the shares quoted on an exchange which forbade shares of this kind.

'Bond Washing'

Following its strong statement on 'bond washing' earlier this month, the Council of the Stock Exchange has now announced changes in dealing rules. The changes are designed to stop a practice which, in its simplest form, consists of selling Government stocks cum dividend and buying them back ex dividend, thereby effecting a capital gain instead of receiving a taxable dividend.

Under the changed rules, brokers will be obliged

to provide certificates against switching or closing operations undertaken in the three weeks' period prior to the ex dividend date. In the event of a sale, the certificates will confirm that the broker's client has been the beneficial owner of the stock for at least a month and, in the event of a purchase, that the transaction is not a closing operation. Where an ex dividend transaction is not part of a switching or closing operation a further certificate must be provided. Jobbers will have to retain the certificates for at least two years from the end of their financial years and the certificates must be produced if called for by the Council.

'Bond washing' is not entirely confined to the gilt-edged market to which the proposed rule changes apply. Foreign bonds, in particular, have attracted this type of operation and the Council is considering applying similar proposals to transactions other than in gilt-edged stocks.

Customs on Composite Goods

The Second Schedule to the Finance Act, 1947, gave power to the Treasury to make orders under which the assessment of customs duty on the dutiable ingredients of composite goods would be simplified. The Composite Goods Order, 1957 (S.I. 1957, No. 1493) which comes into force on September 1st, and was made under this new power, effects a radical simplification of the assessment of duty on a wide range of goods containing sugar, molasses, glucose, cocoa, coffee, or hydrocarbon oils. Many goods containing very small quantities of dutiable substances have been exempted altogether. For instance, the Treasury has now abandoned any claim for sugar duty on prepared or preserved fish, or for coffee duty on biscuits. Where liability remains, arbitrary rates have been laid down so as to obviate the necessity of computing the precise quantity of a dutiable substance in composite goods. In the main, substantially the same total of duty will be collected but the cost of collecting it is estimated to fall by some £25,000.

Two American Bulletins

As most accountants in this country know, American audit reports fall into two main categories. The first, labelled the 'short-form', corresponds broadly to the audit certificate given in this country to comply with the requirements of the Companies Act. The second, or 'long-form', starts off with the 'short-form' certificate (or 'opinion' in American parlance) and then comments in detail on the contents of the financial accounts. In both instances, the certificate covers only the financial statements. In its latest pronouncement, the committee on auditing procedure of the American Institute of Certified Public Accountants,¹ stressing the need for 'a clear-cut distinction between the management's representations and the auditor's presentations', states that its members may be regarded as responsible also for the fairness of the

supplementary information contained in the 'long-form' report.

At present, the auditor does not differentiate between data covered by his examination and data which he may not have examined. The committee thinks that this situation is inconsistent with the concept that an auditor should define the extent and character of his examination. It notes that the auditor, however, is not expected to express an opinion on the comparative figures for the previous period when these are given, but that he should refer to any exception or reservation he may have as to their fairness.

To most accountants, the task of ensuring that any additional information supplied with the intention of amplifying specific aspects of the company's affairs is fairly stated in relation to the picture presented by the financial accounts as a whole must already be regarded as standard practice, but the committee's statement puts the matter beyond doubt and is, therefore, to be commended.

Another transatlantic bulletin, issued this time by the committee on terminology of the American Institute, discusses the correlative terms 'cost', 'expense' and 'loss'.² It defines the first as

'... the amount, measured in money, of cash expended or other property transferred, capital stock issued, services performed, or a liability incurred, in consideration of goods or services received or to be received'.

and goes on to differentiate between unexpired and expired cost and their respective descriptive uses in the balance sheet and in the profit and loss account. 'Expense' in its broadest sense is said to include all expired costs which are deductible from revenues (i.e. sales or turnover) but that its connotation in financial statements is usually limited to items in the selling and administrative sections and to interest and taxes. The term 'loss', the committee states, has both a revenue and a capital application. It may be the opposite of 'income' or 'profit' and it may be used to denote the outcome of specific transactions relating to the disposition of assets.

Income Tax and the Australian Constitution

The Governments of Victoria and New South Wales have been successful in the proceedings which they brought to establish the invalidity of a provision in the Income Tax Act of 1942 under which the Commonwealth Government assumed priority over State governments in imposing income tax. The full bench of the High Court of Australia held by a majority of five to three that the provision was invalid. On the other hand, the Court unanimously held the States Grants (Tax Reimbursement) Act to be valid. Under this Act the States receive annual compensation for not levying their own income tax (*The Times*, August 24th, 1957). The position now is that if a State decides to levy its own income tax its citizens will still have to pay the Commonwealth tax and the State will not obtain any reimbursement.

¹No. 27, July 1957. *Long-Form Reports*.

²No. 4, July 1957. *Cost, Expense and Loss*.

Finance and Commerce

Economic and political uncertainties continue to affect investment sentiment. The stock-markets are quiet with prices largely governed by speculative operations. Gilt-edged stocks have touched new low levels and prospects for the anticipated autumn new issue developments are bleak.

Mining Accounts

It is a long time since we had the accounts of a mining company in this column and we give this week therefore the accounts of Nchanga Consolidated Copper Mines Ltd, one of the great Rhodesian copper companies. Apart from the accounts, mining is an activity that lends itself to a statistical description and there is much material of this nature in the report for study. We have included in the reprint the figures relating to copper production and sales.

One of the most important items in the annual publication is the consulting engineer's report extending to several pages and giving the development accomplished during the year in terms of footage, the extent of the de-watering operations—17 million gallons daily from underground in the year—and the results of plant operations in terms of assay values.

Jacqmar Merger

The accounting date of Jacqmar Ltd, textile merchants and clothing manufacturers, has been extended from January 31st to February 28th, 1957, to show the effect of the merger with Hebe Sports Ltd, manufacturers and wholesalers of ladies' wear. The consolidated balance sheet now totals £1,773,487 compared with £750,926 and capital, reserves and surplus are up from £434,424 to £1,123,928.

The consolidated profit and loss account shows, for information only, the group figures including profits of Hebe Sports for the full thirteen months, the group figures including Hebe Sports since acquisition and the group figures excluding Hebe Sports for the year to January 31st. The figures achieved for Jacqmar bear out the estimate and in the case of Hebe Sports are well in excess of the merger prospect.

The combined business is now under the chairmanship of Mr Paul Steiner, managing director and largest shareholder in Hebe, and it has fallen to him to report that an investment made in 1956 before he took office 'appears to have been most ill-advised'. In the balance sheet, the item is shown as a trade investment costing £7,806 written down to £1. There is a further £10,136 on loan.

A note to the balance sheet explains that the company has undertaken to acquire the balance of the issued share capital in the trade investment by November 1966 at a further cost of £13,000 and in addition to the £7,805 now provided, a transfer of £13,000 has been made to contingencies being the full amount of the further commitment in respect of this

investment which is not at this date a subsidiary.

The investment itself, for no apparent reason, is not identified by name. Mr Steiner reports, however, that it was made last November in which month Jacqmar announced a contract to acquire a controlling interest in M. & S. Haar, wholesale manufacturers of women's coats and suits.

What Business?

It may be taken for granted that shareholders in Wm. Finlay (Belfast) Ltd know what sort of business their money is employed in. There was an offer for sale of 1 million of the company's 1s shares at 1s 4d each in October last year when the history of the company was given and the business was shown to be generally in colour printing and the manufacture of collapsible cartons and boxes. The principal customers are in the tobacco and bakery trades and account for approximately 70 per cent of the business.

It is acknowledged in these days, however, that company reporting, while fundamentally for shareholders, has a wider public and the practice is growing of giving with the report and accounts a summary of the activities in which the capital is employed. In these first accounts of Wm. Finlay, however, there is not the slightest indication of the nature of the business. There is not even a clue in the accompanying chairman's statement.

Money Market

Another rise in the Treasury bill rate took the average rate to £4 1s 0.81d per cent on August 23rd. The market's bid was cut by 3d to £98 19s 9d at which the allotment was 51 per cent. Applications totalled £363,070,000. This week's offer is £240 million.

NCHANGA CONSOLIDATED COPPER MINES LIMITED COPPER PRODUCTION AND SALES

	1956/57	1955/56
	Short Tons	Short Tons
Ore mined	3,163,160	3,278,400
Ore milled	3,116,300	3,221,500
Grade of Ore Milled:		
Oxide copper	2.14%	1.96%
Sulphide copper	2.85%	2.88%
Total copper	4.99%	4.84%
	Long Tons	Long Tons
Concentrates (copper content):		
Produced	120,782	119,952
Sent for treatment	122,102	123,436
Sold	39	51
Stock adjustments	-1,359	-3,535
	120,782	119,952
Finished copper produced:		
Blister from molten copper	20,621	21,014
Blister from scrap	87	27
Electrolytic	91,875	93,682
	112,583	114,723
Sales:		
Blister	18,946	23,992
Electrolytic	88,330	86,697
Concentrates (copper content)	39	51
	107,315	110,740

[illegible]

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Dispensing with Receipts

SIR, - The use of receipts on the reverse of cheques has always been an embarrassment to bankers. Mr Brooks' scheme, outlined in his letter in your issue of August 10th, would, I am sure, be welcomed by all banks in as far as it would eliminate this cause of embarrassment.

There are, however, two points in the proposed form which I venture to criticize adversely from a banker's viewpoint.

Firstly, Mr Brooks suggests that cheques should be crossed 'a/c payee only'. The addition of these words to a crossing has no statutory significance, nor do they affect the negotiability of the cheques on which they are written. H. P. Sheldon, in his *The Practice and Law of Banking*, says that these words and similar variants 'are objectionable'.

Secondly, Mr Brooks says that the paid cheque with his company's endorsement would be available to substantiate payment. When the Cheques Act, 1957, comes into operation on October 17th next, the necessity of cheque endorsement will, as far as the purposes of the proposed form are concerned, be obviated. No doubt Mr Brooks' company will wish to avail itself of the benefits of not having to provide an endorsement on cheques paid into the company's account. The paid cheques would in these circumstances merely bear the crossing stamp of the company's bankers or that of an agent banker if the cheques were paid in at another than the accounting office.

Evesham, Worcs.

Yours faithfully,
R. G. SCOTT.

Depreciation

SIR, - It may be that I have an awkward streak, but I fail to understand the assertion made in the article entitled 'Scientific Estimation of Depreciation', by Mr Kenneth S. Most - August 10th issue - that

'Depreciation is neither a loss nor an expense: it is a method of ascertaining an expense.'

I find this statement unintelligible, especially in view of the author's description of a formula for annual depreciation. Surely depreciation is the loss or expense itself and not the formula or method of ascertaining it.

Yours faithfully,
NORMAN H. DAVIES, A.C.A.

Woodford Green, Essex.

[Mr Kenneth S. Most writes: The term 'depreciation' is, of course, used in practice to denote the portion of capital expenditure attributable to a particular accounting period, and that is why I used it in the instance mentioned, namely, the formula for ascertaining annual depreciation. Still, I feel that the distinction

has to be made in any analysis of the subject, because it is exceptional for an item of expenditure to be called by the name of the process by which it is ascertained.]

Accountants' Responsibilities

SIR, - It is always stimulating to read the excerpts from the North American journals in 'North American Commentary' which you publish from time to time, and compare the accounting scene as reported by enlightened commentators in North America with conditions as we know them in Britain. The commentary in your issue of August 3rd is rich in outspoken comment on the need to revise and enlarge our concepts of the accounting requirements of modern business and our responsibilities in regard thereto. For example:

'Accounting as a tool of management ... those who ignore the fact of accounting's development as a useful tool of management are deceiving themselves if they think their practices will not be affected.'

'Administration of accounting practice ... the profession has no right to force the public to turn to others for certain accounting skills.'

'Income accounting and social revolution ... changes of price level and the lapse of time are crucial factors, which do not enter into the present-day accounting concept of income.'

'Operations research ... there is a close interaction between operations research and accounting, for the accountant is the source of the data on which the analyst must work.'

All the above statements are equally applicable to this country as a challenge to the accountant to realize his responsibility in submitting figures which are not only accurate, but truly represent economic reality. How many accountants are there today who complacently accept the role thrust upon them by their clients as 'dutch uncles' for taxation purposes, and imagine their responsibilities end with the agreement of the tax assessment? How many accountants realize their responsibility when reporting profit figures which bear no relation to the true economic profit earned? However small the concern, it is an integral part of the national economy, contributing to its health or ill-health as the case may be.

In an assessment of how 3,025 companies financed capital expansion, the National Institute of Economic and Social Research, in their pamphlet on *Company Income and Finance*, had to add the proviso

'that the degree of internal financing reflected in the accounts is inflated by that required during this period, not for purposes of expansion, but simply to avoid a depletion of real assets'.

How much more valuable the results of that Institute's analysis would have been if each of those 3,025 companies had shown the economic value of capital

expansion on stocks and fixed assets as distinct from the financial capital expansion, which included but did not reveal the extent of fortuitous capital gain derived solely from increased prices!

'The accountant is the source of the data on which the analyst must work.' So long as this data continues to be unrealistic, national economy decisions based thereon will continue to be correspondingly unrealistic.

Yours faithfully,

Burgess Hill, Sussex.

WM. E. SPRUCE.

Age and Appointments

SIR, - With reference to the letters which have appeared in your August 10th and 24th issues, I would like to relate my own experiences. In 1954, at the age of 42, I was obliged to seek a new position and secured one as secretary and accountant to a group of five small companies. Not liking it I began again to answer advertisements and in spite of my age had more than thirty interviews in just over two years, and three offers, all of which for various reasons I turned down, until in November 1956, at the age of 45, I secured a post as secretary and accountant to a firm of engineers at a four-figure salary and other benefits.

I am not a chartered accountant or secretary, but a member of The Association of Certified and Corporate Accountants. So it is not impossible, even at 45, but one must keep trying.

I frequently despaired, and in all must have written nearly four hundred letters - a most tedious and weary way of spending one's week ends. But it is the only real way. Jobs don't come knocking on the door.

Yours faithfully,

MAYBE A LUCKY ONE.

SIR, - I think the answer to 'A.C.A.'s' inquiry (August 24th issue) concerning the relative values of shorthand-typists and accountants lies in the law of supply and demand; good typists are in short supply - accountants are not.

In fact this is amply illustrated in your 'Situations Vacant' columns for August 24th, where a semi-senior audit clerk is wanted at £10 10s 0d per week and an 'assistant in a chief accountant's office' at £8 15s 0d per week!

In my own (nationalized) industry these rates are paid to semi-skilled labourers, while an office junior in his twenties doing a completely routine job requiring no qualifications or experience, but the maximum of supervision, can earn £610 per annum.

Truly, accountants are a dying race!

Yours faithfully,

A.A.C.C.A., A.C.W.A.

'Profits Tax Formulae'

SIR, - Referring to the article under the above heading by Mr W. L. Spalding, in your issue of April 20th, I would be obliged if a reader, or perhaps Mr Spalding, would provide the mathematical derivation of the formulae quoted in the article.

The formulae of particular interest are those giving the profits tax payable when no election under the grouping provisions has been made, as follows:

- (i) Where the subsidiary's profit exceeds £12,000.
(3 per cent of C + 27 per cent of D) + (27 per cent of S times $\frac{D}{C}$).
- (ii) Where the subsidiary's profits are between £2,000 and £12,000.
(3 per cent of C + 27 per cent of D) plus or minus ((33 per cent of S) - (£720 + 27 per cent of S times $\frac{D}{C}$)).
- (iii) Where the subsidiary's profit is less than £2,000.
(3 per cent of C + 27 per cent of D) minus (3 per cent of S + (27 per cent of S times $\frac{D}{C}$)).
(The symbols used are defined in Mr Spalding's article.)

The formulae at (i) and (iii) are, of course, capable of logical analysis, but that at (ii) is somewhat more obscure.

Yours faithfully,

J. W. BAYLISS.

Swindon.

[Mr Spalding writes: Your correspondent has unfortunately misquoted the formula under (ii). The words 'or minus' are incorrect and did not appear in the article as published on April 20th last. I do not show the detailed working for (i) and (iii) but they can be readily calculated by following the same algebraic methods as are used below. As regards (ii):

- (a) Profits tax payable by the subsidiary, allowing for abatement, is: 30 per cent of $(S - \frac{£12,000 - S}{3})$
= 30 per cent of $(\frac{6S}{3} - £2,400) = 36$ per cent of $S - £720$.
- (b) The parent company's net relevant distribution = $\frac{P}{C}$ of D. Its non-distribution relief is 27 per cent of $(P - \frac{D}{C} \text{ of } P)$ substituting $(C - S)$ in place of P in the last undernoted item, profits tax payable by the parent is: 30 per cent of $P - 27$ per cent of $P + 27$ per cent of $\frac{D(C - S)}{C}$.
- (c) The profits tax payable in total by the two companies is therefore: 36 per cent of $S - £720 + 3$ per cent of $P + 27$ per cent of $D - 27$ per cent of S times $\frac{D}{C}$.

Break down 36 per cent of S into 3 per cent of S + 33 per cent of S and rearrange items. This gives: 3 per cent of S + 3 per cent of P + 27 per cent of D + 33 per cent of $S - £720 - 27$ per cent of S times $\frac{D}{C}$. Combine first two items above and we get: (3 per cent of C + 27 per cent of D) + 33 per cent of S - (£720 + 27 per cent of S times $\frac{D}{C}$).

West Riding Successes

SIR, - The fact that five out of the six certificates of merit awarded on the results of the recent Institute Final examination went to candidates from the West Riding of Yorkshire seems, so far, to have passed unnoticed or at least unacknowledged.

May I, as one having family ties with that area, offer my congratulations to the five gentlemen concerned.

Yours faithfully,

Westminster, SW1. C. J. NORMANDALE.

Notes and Notices

PERSONAL

MESSRS COOPER BROTHERS & Co, Chartered Accountants; Messrs GATTEY & BATEMAN, Chartered Accountants, and Messrs LOWE, BINGHAM & MATTHEWS, Chartered Accountants, announce that they have opened a branch office in Malaya, at Lee Rubber Building, 145 High Street, Kuala Lumpur.

MESSRS FRANK COLLIS & Co, Chartered Accountants, announce that their practice is now being carried on from 29 Finsbury Square, London, EC2. Telephone: Monarch 7858.

MESSRS VANN, BURTON, COSTELLO & Co, Chartered Accountants, of 5 Great Winchester Street, Old Broad Street, London, EC2, announce that Mr ARTHUR CLARK McMILLAN, C.A., has been admitted as a partner as from September 1st, 1957. The name of the firm will remain unchanged and the practice will be continued at the above address and at 37 St Barnabas Road, Cambridge.

MESSRS JONES, CREWDSON & YOUATT, Chartered Accountants, of 7 Norfolk Street, Manchester, 2, announce that Mr COLIN M. SKINNER, C.B.E., LL.D., F.C.A., who was articulated with the firm in March 1899 and has been a partner since October 1910, will be retiring from the firm on September 30th, 1957. The name of the firm will remain unchanged.

MESSRS MIDGLEY, SNELLING, BARNES & Co, Chartered Accountants, of Station Road, Accra, Ghana, announce that they have taken into partnership Mr KEITH HARPER MIDGLEY, A.C.A., as from September 1st, 1957.

PROFESSIONAL NOTES

Mr F. M. Burns, A.C.A., formerly chief accountant of Bristol Aero-Engines Ltd, has been appointed to the board of the company as finance director.

Mr D. Railton, A.C.A., formerly personal assistant to Sir Reginald Verdon Smith, chairman of the Bristol Aeroplane Co Ltd, has been appointed secretary of Bristol Aero-Engines Ltd.

Mr W. D. Rennie, C.A., formerly chief accountant of de Havilland Aircraft Ltd, has been appointed secretary of the company.

Mr J. H. Gibson, C.A., has been appointed a director of Steinberg & Sons (London & South Wales) Ltd.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

MEETING OF THE COUNCIL

A meeting of the Council of The Institute of Chartered Accountants in Ireland was held in Dublin on Thursday, August 22nd, 1957.

Attendance

The President, Mr G. F. Klingner, was in the chair, and there were also present Messrs James Walker, *Vice-President*, H. E. A. Addy, G. A. P. Bryan, Patrick Butler, G. E. Cameron, M. M. Connor, J. F. Dempsey, James Graham, N. V. Hogan, R. E. McClure, R. P. F. Olden and D. McC. Watson, with the *Secretary* and the *Joint Secretary and Treasurer* in attendance.

Apologies for absence were submitted from Messrs John Bacon, A. S. Boyd, Frank Cleland, A. E. Dawson and H. W. Robinson.

Deaths

The recent deaths of Edward Lambart Barrett, F.C.A., Dublin, and Eustace John Shott, F.C.A., Dublin, were reported and noted with regret.

Fellowship

David McDowell Foster, A.C.A., Belfast, was elected to Fellowship.

Associateship in Practice

The following members were admitted to practice:

Charles Edward Johnston, Belfast.
Noel Alexander Lawther, Belfast.
John Clayton Rawlins, Nairobi.
William Henry de Forde Smyth, Belfast.

Membership

The following candidates, who were successful at the Final examination in May 1957, were admitted to membership:

As Associates in Practice: Dioraid Aodh Corvin (Belfast); John Dixon Hulatt (Belfast); Brendan Henry Nichol (Dublin); Alexander Taylor (Belfast).

As Associates not in Practice: Ronald William Edward Arnold (Sidcup, Kent); Patrick Brosnan (Dublin); Leo Campbell (Dublin); John Geddes Carson (Ballymena, Co. Antrim); Noel Feddis (Dublin); Thomas Henry Creed Freeman (Dublin); Brendan Patrick Geary (Limerick); Neal William Geoghegan (Dublin); Dennis Ewart Graham (Newtownards, Co. Down); John Patrick Hanlon (Dublin); John Edward Healy (London); Thomas Patrick Higgins (Dublin); John Michael Horner (Bangor, Co. Down); Jeremy Owen Thomas Hughes (Craigavad, Co. Down); John Collis Johnston (Dublin); Ian Williamson Kelly (Dublin); John Eunan Kenny (Dublin); Charles Michael MacCarthy (Castlebar, Co. Mayo); Ronald McCoy (Belfast); Edward Anthony McMahon (Belfast); Michael John McVeigh (Belfast); Robert Gregg Matthews (Glanmire, Co. Cork); John Lewis More O'Ferrall (Moyvalley, Co. Kildare); James Patrick Joseph Rigney (Dublin); Hugh Sheridan (Kilnaleck, Co. Cavan); Denis Raymond Spence (Belfast); Brian Orr Templeton (Belfast); William Entwistle Weir (Belfast); Shane Toland Willis (Bangor, Co. Down); William Benjamin Wilson (Crumlin, Co. Antrim).

At a short ceremony the President welcomed a number of the new Associates and presented certificates of membership.

Applications under Bye-law 79

Applications from two articulated clerks for permission to spend a period of their articles in commercial organizations were granted.

Examinations - November 1957

It was decided that the next examinations - Preliminary, Intermediate and Final - should be held in Belfast and Dublin on November 19th, 20th, 21st and 22nd, 1957.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 12.30 p.m. on Monday, September 2nd, in the vestry at St Mary Woolnoth Church, Lombard Street, EC3. The Scripture for reading and thought will be Matthew xxii, 1-14 (The parable of the guests for the wedding).

NEW NATIONAL INSURANCE
CONTRIBUTIONS

New combined National Insurance and National Health contributions which stem from the National Health Service Contributions Act, 1957, come into effect next Monday, September 2nd.

Hitherto, the N.H.S. contribution, which varied between 6d and 10d per week, has been included in the National Insurance contribution. The N.H.S. contribution is now to be raised to between 1s and 1s 8d per week, and will be a separate contribution, though it will be combined in a single stamp with the National Insurance contribution. The new weekly combined rates are as follows:

Class 1	MEN				WOMEN			
	Age		Age		Age		Age	
	18 or over	under 18	18 or over	under 18	18 or over	under 18	18 or over	under 18
Employed persons:	s	d	s	d	s	d	s	d
Paid by employee	7	5	4	3	6	0	3	7
Paid by employer	6	2	3	8	5	1	3	0
Total	13	7	7	11	11	1	6	7

The above rates include Industrial Injuries contributions

Class 2

Self-employed

persons 9 3 5 4 7 10 4 9

Class 3

Non-employed

persons 7 4 4 3 5 10 3 7

ARTICLED CLERKS

The new reduced rates payable by apprentices – the heading under which articulated clerks are included – aged eighteen and over, whose remuneration does not exceed £3 per week, are as follows:

	s	d
Men	4	9
Women	3	10

The total amount of the stamp is the same as for other employed persons, the employer paying the difference.

The rates for articulated clerks under the age of eighteen are the same as for other young persons, already quoted.

AMERICAN SAVINGS IN 1956

Some interesting facets of the growth in 127 years of American savings and loan associations are shown in the 1957 *Savings and Loan Book*, recently published by the U.S. Savings and Loan League. The eighty-four-page book is full of charts and tables illustrative of all aspects of thrift and home financing, savings and loan business, and Government agencies, while the text covers also the work of the League.

Privately-owned dwellings still comprise 98 per cent of the year's total of 1,120,000 units built. The average construction cost of a one-family house has risen in a year from \$11,350 to \$12,200, and the average floor-space has increased from 1,170 square feet to 1,230 square feet. The aggregate mortgage debt rose from \$88.1 billion to \$99.2 billion.

The total assets in the 6,100 savings and loan associations reached the record level of \$43.2 billion, a gain in the year of \$5.5 billion, compared with the previous year's record gain of \$6 billion. The growth is still highest in the Pacific and mountain States. Savings accounts, at \$37.3 billion, comprise – for the third successive year – 86 per cent of total liabilities; 45 per cent of mortgages made by the associations are for home purchase and 36 per cent for home construction.

THE ASSOCIATION OF
CERTIFIED AND CORPORATE ACCOUNTANTS

Results of Examinations held in June 1957

FINAL EXAMINATION

SECTION I

First Place and Prize: Kemp, J. T., London.

Second Place: Webber, R. S., Coventry.

Third Place: Gillingwater, J. R., Hull.

Fourth Place: Heath, B. W., Coventry.

(in alphabetical order)

Adams, M. W., Widdersh.
Andrews, E. T., Bristol.
Armstrong, C. G., Ashford.
Baker, A. F. S., London.
Barrett, D. L., High Wycombe.
Bird, P., Hove.
Bishop, D. H. J., Torquay.
Bouskill, A. E. W., Ilford.
Brassington, J., Newcastle.
Bridgers, A. H., Chelmsford.
Brown, K., Scarborough.
Bullard, D. W., London.
Cahalin, M. A., Mount Merriam.
Castle, M. J., Bristol.
Clarke, J. V., Santry.
Clement, A. B., Luton.
Coates, L. J., London.
Cole, P. E. W., London.
Collison, P. S., London.
Conlon, K. A., Dundalk.
Cooper, Miss D. A., Warrington.
Copsey, A. S., Princes Risborough.
Costigan, P. F., Bradford.

Cranston, J., Carlisle.
Crowther, L., Wallsend-on-Tyne.
Davies, A. S., Liverpool.
Denney, B. H. E., Crawley.
Dixon, R. C., Birmingham.
Doorne, M. L., Ashford.
Duffy, J. E., London.
Dyson, R., Chadderton.
Eckersley, E., Farnworth.
Eley, W. F., Stafford.
Evans, M. G., Clymington.
Eyre, J. H., Romford.
Farmer, A. F., Bridgwater.
Farroe, R. I., Trinidad.
Fenwick, P. G., Darley.
Gilbert, J., Stourport-on-Severn.
Gilbody, G. H., Brighton.
Goude, L., Sheffield.
Green, E. H., West Bridgford.
Gregory, A. J., Basingstoke.
Grey, J. R., Sidcup.

Halstead, G., Doncaster.
Hamilton, R. E., Belfast.
Hanson, J. D., Harrogate.
Harris, R. T., Torquay.
Hassan, A., London.
Heffron, T. M., Dublin.
Hiles, G. W. H., Exeter.
Hillcox, B. W., Weston-super-Mare.
Hobbs, J., London.
Hodge, D. E. R., Dorchester.
Holt, H., Rochdale.
Howard, G. A. R., Thornton Heath.
Hughes, J., London.
Hunter, I. B., Edinburgh.
Hyslop, M. J., Wolverhampton.
Jacobs, D., Ilford.
James, D. L., Birmingham.
Jaques, A., Middleton.
Johnson, L. A. H., New Malden.
Jones, M. D., Chesterfield.
Jones, R. E., London.
Joy, E. M., Chalfont St Peter.
Kilminster, E. N., Birmingham.

Knowland, E., Hull.

Ladeinde, O. A., Reading.
Langley, S., Chester.
Leonard, W. H., Paignton.
Levene, M. P., Edgware.
Liddle, J. A., Chelmsford.
Lovett, W. H. F., London.

McCallum, B., Belfast.
McIntosh, B. C. S., York.
McNamara, P. J., Burton-on-Trent.
Madden, R. J., Oxford.
Marlowe, B., Belfast.
Marsh, L. H. K., Farnham.
Mauger, K. W., Guernsey.
Mayes, G. W., Birmingham.
Mendel, S. L., Harrow.
Miller, D. L., Southsea.
Millett, P. G., Tullamore.
Milne, J. M., Warrington.
Mills, H. W., South Benfleet.
Mills, R., North Borneo.
Moore, C., Llay.
Moore, D. B., Guildford.
Moore, J. D., Belfast.
Morrison, R., Barnsley.
Murphy, P. T., Watford.
Murrell, V. C., London.

Newman, J., Stockport.
Newstead, R. A., Great Yarmouth.
Nixon, G. A., King's Lynn.
Norris, R. A., Luton.
Nwangoro, L. O. I., Leeds.

Oliver, J. K., Leigh-on-Sea.
Owen, C. J., London.

Owseni, J. A., London.

Packer, C. E., Bromley.
Packer, D. W. J., Bath.
Papworth, G. T., Gravesend.
Parkinson, G. R., Carlisle.
Parsons, M. H., South Brent.
Pendlebury, C. B., Blackpool.
Pickford, G. H., Hyde.
Porter, A., London.
Price, S. W., Hythe.
Prior, L. F., Petersfield.

Rawlins, L. A., London.
Reeves, G., Poole.
Ridgway, C. I. D., Alvechurch.
Riley, S. R., Birmingham.
Robb, C., Greenford.
Roberts, R., Birmingham.
Rockson, J. K., London.
Ronayne, J. K., Bray.
Rose, H., London.
Rowe, G., London.
Rundle, R. T., Bexley.
Ryan, J. G., Limerick.

Salt, R. G., Burton-on-Trent.
Saunders, B. H., London.
Sayer, J., Carlisle.
Scott, J., Gateshead.
Sellers, B. W., Stockton-on-Tees.
Shimwell, W., Blackpool.
Silvester, W. J., Kingswinford.
Simmons, R., Manchester.
Skinner, L., Cranleigh.
Slope, A. J. R., Greenford.
Smith, C. M., London.
Smith, D. J., Kenton.

Smith, R., Warrington.
Spencer, P. J., Guildford.
Stanley, S. J. M., Oldbury.
Stanley, W. J., Stanmore.
Staunton, F. W., Northolt Park.
Stiff, A. T., Birmingham.
Storz, M., London.
Sugden, G. A., York.
Sutcliffe, N., Bradford.

Tait, M. W., Plymouth.
Thomas, A. W., Felixstowe.
Thompson, D. A., London.
Thompson, S., Bolton.
Thorpe, R. C., Burton-on-Trent.
Turner, B. R., Swansea.
Turner, D. B., London.

Vick, L. B. K., Aylesbury.

Waddams, D. G., Painswick.
Walker, A. J., London.
Walker, C. H., Wakefield.
Ward, Miss A. J., Ipswich.
Waterall, D., Loscoe.
Webster, A., Leeds.
Wilkinson, K., Bradford.
Williamson, J. D., Liverpool.
Wills, M. E., Manchester.
Wilson, E., Roby.
Wilson, K., Oswaldtwistle.
Wilson, R. C. E., London.
Winpenny, K. B., Middleton.
Withnall, R. W., Walsall.
Wood, I. R., Millom.
Wykes, G. E., Bexleyheath.

Young, B. O., Southall.

471 Candidates failed.**FINAL EXAMINATION****SECTION II***First Place and Prize:* Turton, V. R., Solihull.*Third Place:* Kench, J., Sevenoaks.*Second Place:* Parkes, W. F., Nottingham.*Fourth Place:* Coleman, G. C., Merstham.**(In alphabetical order)**

Alkinwumiju, F. A., London.
Alexander, A., Salford.
Allen, J. E., London.
Allen, K. H., London.
Allred, P. R., Chilwell.
Auker, H. A., Harrogate.

Baggott, J. T. W., Waltham Abbey.
Ball, G., Newcastle upon Tyne.
Ball, G. W. G., London.
Bannerman, W., Bridge of Allan.
Beal, A., Mansfield.
Beamish, L. S., London.
Beasley, D. W., Liverpool.
Beaty, B. F. B., Shefford.
Beer, C. C., Bristol.
Bell, M. A., Torquay.
Berville, K., Folkestone.
Bews, J. G., Ruislip.
Bird, R. E., London.
Bradford, D. E., London.
Brewer, R. I., Bristol.
Broadhead, R., Stocksbridge.

Brumwell, H. D., Ilford.
Buffin, D. H. L., Hillingdon.
Bullivant, C., Penistone.
Burnett, G. S., Coventry.

Cameron, E. B., London.
Caplan, H., London.
Carter, R. H., Driffield.
Chan, K. C., London.
Chapman, I. A. E., West Hove.
Clarke, D. M., Maidstone.
Clery, N. W., Dublin.
Cockbill, K. S., Coventry.
Collins, J. A., Brentwood.
Cooke, A. J., Ruislip.
Cope, B. G., Beckenham.
Couzens, J. S., London.
Cross, R. A., Reading.
Cruickshank, R., Shotts.
Curtis, B., Stafford.

Darnley, R., Macclesfield.
Davies, B. J., Southall.

Davies, D. S., Bridgend.
Daw, H. J., Romford.
Dixon, A., Burnley.
Doidge, A. H., Mylor.
Downey, H., Banbridge.
Drummond, E., Grimsby.
Duke, K. F., Lucan.
Dunn, C. B., Dudley.
Dyson, J. S., Marsden.

Edge, M. J., Alvaston.
Edwards, A. G., Bristol.
Egner, R. W. E., London.
Eliff, V. C., Caterham.
Elton, Miss M., Sanderstead.
Emens, J. W., Gateshead.

Finnie, T., Aberdeen.
Fishlock, A., Purley.
Fishwick, J. G., Windle.
Forsyth, G. C., London.
France, M. D., Leeds.
Fryett, A. F., Cambridge.

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Gibbs, R., Weston-super-Mare.
Gibson, C. E., High Wycombe.
Gillson, H., Horsforth.
Gowlar, G. A., Goole.
Gray, J. D., Bath.
Grosvenor, P. R., Wallington.
Grover, W. J., Barnet.

Haggarty, J., Glasgow.
Hall, A. V., London.
Hall, L. J., Potters Bar.
Hamilton, Miss M. E., Bothwell.
Hamilton, T. D., Glasgow.
Hawkins, P. A., Cheltenham.
Hayden, W. S., Haverfordwest.
Hazlewood, H., Birmingham.
Hearley, J. W., London.
Heaton, H., Leeds.
Hedger, R. A., Twickenham.
Hedmann, R. E., London.
Heeks, D., Newcastle-under-Lyme.
Helme, D. J., Leigh.
Holsey, J. W., Rotherham.
Honey, D. S., London.
Horton, D. J., Northampton.
Houston, I. G., Edinburgh.
Howell, D., Stoke-on-Trent.
Hume, R., Newcastle upon Tyne.

Jackson, K., Ruislip.
James, P., Shoreham-by-Sea.
Jarrold, P. F. T., Ipswich.
Jay, K. E., Dagenham.
Jupe, R. A., Watford.

Kavanagh, E. W., London.
Kay, R., London.
Kearsley, K. W., Swinton.
Keefe, R. D., Hayes.
Kelly, J. D., Sale.
Kenderick, B. C. A., London.
Kent, B. E., Littlehampton.
Kilby, A. J., Doddington.
Kirsopp, W. N., Newcastle upon Tyne.

Laming, P. F., London.
Langridge, J. W. G., Okehampton.
Lavelli, P. B., Morden.
Lee, A. J., London.
Lever, G. S., Wirral.
Licence, J. C., Driffild.
Liddle, W. A., Glasgow.

Lim, S. T., London.
Linley, W., Healing.
Linsey, P. H., London.
Linsey, P. J. H., Callington.
Livesey, K. F., Bolton.
Looker, S. R., Harwich.
Loughlin, D. L., Lowestoft.
Lucas, W. G., Birmingham.
Lyn, A. A., Hockley.

Mackenzie, J. D., Bromley.
Macmillan, D. M., Glasgow.
Marriott, W. H., Cambridge.
Martin, D. J., Ebbw Vale.
Mears, M. R., London.
Mier-Jedrzejowicz, J. G., London.
Milton, D. B., Edinburgh.
Montgomery, A. R., London.
Morris, A. F., Leicester.
Moss, C. S., Streetly.
Mula, M. S., London.
Mumford, W. W., London.

Nettleton, K., Cleethorpes.
Newberry, J. F., Dawlish.
Nichols, K. J., Northampton.
Nicholson, W. U., Leamington Spa.
Norman, P. W., London.
Norman, R. D., London.
Nylander, Miss S. E. K., London.

O'Brien, W. P., Flixton.
Oliver, A. W. A., Surbiton.
Oliver, D. E. W., Sanderstead.
Owen, T., Swansea.

Parkin, N., Woodlands East.
Parrott, J. W., Liverpool.
Parsons, S. P., Mansfield.
Pearson, J. W., London.
Perfect, N. W., High Wycombe.
Pettinger, H., Grimsby.
Phillips, Mrs N. M., Crawley.
Phipps, A., Stockport.
Potter, A. K., Leicester.

Ratcliff, R. S., London.
Rawcliffe, G., Blackpool.
Rayner, J. B., Crawley.
Reay, J. G., North Shields.
Reed, A. R., Chelmsford.
Rhodes, G. E., Bewdley.
Riley, D., Carcroft.

Robinson, E. J., London.
Rodgers, W. S., Holmfirth.
Ryan, D. P., Billerica.

Sanderson, R. H., Leeds.
Saunders, P. J., Hayes.
Schweitzer, H. A. K. M., Cookham.
Scott, B. J., Liverpool.
Sexton, W. G. S., Guernsey.
Sharp, J. A., Harrogate.
Shaw, C. P., London.
Slade, A. D., Westward Hol
Sly, B. R., Portsmouth.
Snape, G. W., Preston.
Spence, C. W., Glasgow.
Stack, R. D., Tralee.
Steel, R. C., Twickenham.
Stevenson, A. P., Glasgow.
Stimpson, V. C. R., Wells.
Stinchcombe, L. W., Sherborne.
Stott, H., Huddersfield.
Stott, J. G., Seine, France.
Street, D. A. C., Honiton.

Talbot, R., Birmingham.
Taylor, D. J., Birmingham.
Teideman, E. C., London.
Thain, R. C., London.
Thomaa, R. B., Whitechurch, Cardiff.
Thorne, G. A., Harlow.
Thornton, B. P., Kendal.
Thorpe, E. F., Bradford.
Tierney, M. J., Limerick.
Tucker, K. G. W., Bath.
Turner, A., Glasgow.

Waddington, K., Calverley.
Wallis, D. J., Dartford.
Waltham, C. P., Spalding.
Warren, M. E., Bristol.
Warrington, N. J. S., Boscombe.
Watling, J. A., Aldershot.
Wells, F. W., Godmanchester.
Westwell, G., Knauden.
Wheat, F. E., Wolverhampton.
Whitehead, L., Stoke-on-Trent.
Wilkins, G. B., London.
Wilson, D. B., Baldock.
Wilson, E. D. H., Aylesford.
Wilson, R. M., Maldon.
Woodward, B. J., London.

Yates, J. A. W., London.
Young, J., Haverfordwest.

266 Candidates failed.

Summary of Results

Candidates	Pre- liminary	Inter- mediate	Final		Total
			Section I	Section II	
Passed with Honours..	—	5	4	4	13
Passed	65	211	170	213	659
Failed	101	568	471	266	1,406
Total sat	166	784	645	483	2,078

MOTOR — FIRE — CONSEQUENTIAL LOSS

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THE CONGRESS

NEXT Monday, the seventh of the series of international congresses on accounting held during the course of half a century will be inaugurated in Amsterdam. The first congress was held in St. Louis in 1904. Then followed a long interval until 1926, when the second took place in Amsterdam. The third was in New York in 1929, the fourth in London in 1933, the fifth in Berlin in 1938 and the sixth in London again in 1952.

It reflects great credit on the two sponsoring bodies - the Nederlands Instituut van Accountants and the Vereniging van Academisch Gevormde Accountants - that for the second time Amsterdam should house the congress. Two years ago, on the occasion of the diamond jubilee celebrations of the Nederlands Instituut van Accountants, we said that a feature of the accountancy profession in the Netherlands since the First World War had been its enthusiasm for promoting good relations among accountants throughout the world. This latest demonstration of that quality - and what attribute in the modern world could be more important than the desire to further international goodwill? - cannot be too highly commended.

From the attractive programme arranged it would seem that the success of the congress is already assured. Anticipation has been further stimulated by the news that H.R.H. Prince Bernhard of the Netherlands will be present at the opening session, when both he and the State Secretary of Economic Affairs will address the congress. The names of those attending the congress from this country appear elsewhere in this issue.

The official opening ceremony takes place on Monday afternoon and the closing ceremony on Friday afternoon. Between these are business sessions on the morning and afternoon of Tuesday, the afternoon of Wednesday, and the morning of Friday. Thursday is given over to sightseeing excursions. The evenings of each day are also reserved for social occasions - receptions on Monday and Thursday, a trip through the city's canals on Tuesday, a concert by the famous Concertgebouw Orchestra on Wednesday, and a ball on Friday. This pattern of events is similar to that of the 1952 congress held in London and the preliminary arrangements seem to have been made with the characteristic thoughtfulness and thoroughness of the people of the Netherlands.

It is appropriate that for its first business session on Tuesday morning the congress should have selected as its subject 'Principles for the accountant's profession', for, unless the ideas and ethics of accountants in all parts of the world are on a common or comparable basis, the influence of the profession cannot be exercised to the extent that it might be. Five members of the congress,

including SIR THOMAS B. ROBSON, M.B.E., M.A., F.C.A., who will also act as rapporteur, are giving papers in which the viewpoints of the United Kingdom, America, Sweden, the Netherlands and Germany will be expressed.

Warming to its work, the congress will conduct two business sessions concurrently on Tuesday afternoon. At one of these, the theme will be 'The verification of the existence of assets'. The five papers to be presented emanate from Canada, America, the Netherlands, France and the United Kingdom, the last being represented by SIR RICHARD YEABSLEY, C.B.E., F.C.A., F.S.A.A., President of The Society of Incorporated Accountants. At the other Tuesday afternoon session, 'Budgeting and the corresponding modernization of accounting', will be discussed, the principal contributors coming from Germany, India, America, the Netherlands and the United Kingdom (MR J. P. WILSON, F.C.W.A., A.C.I.S.).

Wednesday's business is concentrated into two simultaneous afternoon sessions. The group leader of the discussion on 'The internal auditor' will be MR B. SMALLPEICE, B.COM., A.C.A., and one of the papers is presented by MR ERNEST SINNOTT, F.I.M.T.A., F.S.A.A., the other contributors hailing from America, Australia, Canada and the Netherlands. At the other session, the subject will be 'Business organization and the public accountant', a title which perhaps requires a word of explanation. The aim of the contributors (from France, the Netherlands, Finland, America and the United Kingdom, the representative of the last being MR J. E. HARRIS, B.COM., F.A.C.C.A.) is to explain what services the accountant in practice has to offer to commercial and industrial concerns. At the final business session on Friday morning, at which 'Ascertainment of profit in business' will be considered, members from the Netherlands, America, Denmark, Austria, Belgium and the United Kingdom (MR C. I. R. HUTTON, B.A.(OXON), C.A.) will give papers.

From the above programme, it is interesting to note that to each business session, members of the profession in the Netherlands, the United Kingdom and America are contributing papers. This accounts for eighteen papers, the remaining thirteen being divided among Canada, France, Germany (two each), Australia, Austria, Belgium, Denmark, Finland, India and Sweden. While it is logical that the lead should be given by those

countries with highly organized professional bodies and strong commercial associations, it would be to the detriment of the cause of the congress if as many delegates as possible from other countries did not come forward and contribute to the deliberations. The papers, which will form the bases for discussion, are of a high quality but they are not, as their writers would be the first to admit, pontifical pronouncements. They are designed for criticism and the wider the international circle of commentators they evoke, the more valuable should be the outcome.

At the 1952 congress in London, the five subjects chosen for discussion, as we pointed out at the time, fell neatly into two divisions. The first, made up of two papers, entitled 'The accountant in practice and in public service' and 'The accountant in industry', constituted a general review of the profession and of the services it had to offer to the community. The second division dealt with the specific accounting problems connected with inflation, new capital issues and taxation, each, as we then remarked, self-contained but linked together by the exigencies of the times. On this occasion, also, the subjects to be considered may be divided into two categories, the one philosophical and the other practical. The first embraces the papers on 'Principles for the accountant's profession' and 'Business organization and the public accountant', which might be described as statements or, better, re-statements of professional attitudes and opportunities. The second, and practical, category includes 'The internal auditor', 'Ascertainment of profit in business', 'The verification of the existence of assets', and 'Budgeting and the corresponding modernization of accounting', a projection, it might be said, of the whole business of the practising accountant from detailed audit checking to the higher flights of management accounting. If the subjects in this category do not (from their titles) appear so profound as those in the equivalent division of the previous congress – these were 'Fluctuating price levels in relation to accounts', 'Accounting requirements for issues of capital', and (succinct and sinister) 'The incidence of taxation' – next week's papers will be found to contain many recurring references to these old and as yet unresolved problems which serves to show that discussion inspired by dogmas is never-ending.

ESTATE DUTY ON *INTER VIVOS* GIFTS AGGREGATION

SECTION 38 (10) of the Finance Act, 1957, as originally drafted, was as follows:

'For the purpose of aggregation, any property comprised in a gift *inter vivos* made by the deceased shall be deemed to be property in which the deceased had an interest.'

One may surmise that the thought processes by which the draftsman arrived at this laconic sentence were somewhat as follows.

An item of property passing, or deemed to pass, on a death, is exempt from aggregation if the deceased never had an interest in it. Accordingly, if it is worth less than £3,000, it pays no duty at all, and in any case helps to reduce the rate of duty payable on the aggregate estate. Recent litigation has established that where an *inter vivos* gift gave rise to a charge to duty, it was the property given which had to be valued, and nothing else: not, for instance, the proceeds of sale of that property. This principle opened the door to widespread tax avoidance, e.g. by making gifts take the form of short-dated securities which would have ceased to exist, and therefore would have no value, on the death within five years. The main object of Section 38 was to counter this avoidance by, broadly speaking, ensuring that the property in the donee's hands which represented the original gift, should be taxed. It occurred to the draftsman that such property might well be property in which the deceased never had an interest, and would therefore bring the enjoyment of the advantage of non-aggregation and partially defeat the object of Section 38. Hence Section 38 (10). It may be mentioned in passing that in the days when the Revenue were still trying to enforce liability on the grounds that, e.g. the proceeds of sale of a gift were taxable, they did not concede that such proceeds were not aggregable.

A happier way of wording Section 38 (10) is to add between the word 'property' where it first occurs, and the word 'comprised', the words

'which is by virtue of any of the foregoing provisions of this section to be treated as . . .'

These words were in fact added at the instance of SIR PATRICK SPENS. SIR PATRICK went on to

propose another amendment, which was to add, at the end of Section 38 (10), the words

'except in so far as it directly or indirectly represents or is derived from property originally comprised in the gift in which the deceased never had an interest'.

This amendment also was gratefully accepted by the Solicitor-General, who confirmed that it was never the intention to aggregate property which would not have been aggregable apart from Section 38. He added that the Government were aware that Section 38 (10), as originally drafted, went too wide.

'in that it made aggregable any other property comprised in gifts to [*sic*] which was not already aggregable'

and that an amendment to put the matter right had been in course of preparation.

Commenting on the second amendment, in a leading article in our issue of August 3rd, we expressed the view that there could be few cases of a man giving something away in which he had no interest. In a letter published in our issue of August 17th, MR R. W. BOSS, secretary to the Life Offices Association, expressed the hope that our view did not overlook the common case of a policy effected under the Married Women's Property Act. We would say in answer that such a policy rarely attracts tax as an *inter vivos* gift. Normally it is taxed under another provision imported into Section 2 (1) (c) of the Finance Act, 1894, namely, the provision which taxes the proceeds of policies kept up by the deceased. Failing liability under that head, the policy would usually attract liability under Section 2 (1) (d), on the interests provided. A man who effects a policy does not thereby give it away, even though others benefit from it.

The other example quoted by SIR PATRICK when he moved the amendment was an appointment. Here it is difficult to imagine liability, as on an *inter vivos* gift, where the appointer never had an interest in the property. Of course, if his power is a general one, the property is as good as his and will attract liability, and it would be idle to argue that he never had an interest in it.

LLOYD'S OF LONDON

WHEN ARCHBISHOP LAUD, as it is alleged, introduced coffee into this country through his Cretan protégé, NATHANIEL CANOPIS, he could hardly have foreseen how stimulating the black brew would prove to trade and commerce. Many a great enterprise owes its origin to the coffee-houses where, in the seventeenth century, men of affairs met to exchange gossip and the latest commercial and political intelligence. The Stock Exchange is a direct descendant of 'Jonathan's', the shipping exchange of 'The Baltic Coffee House', and Lloyd's of London was born in the coffee-house of EDWARD LLOYD, which was in existence in 1688, eight years before the creation of the Bank of England. Its story,¹ as told by MR D. E. W. GIBB, who has been connected with Lloyd's for over fifty years, is more than the story of a great institution; it is a fascinating sidelight on English history and, as his sub-title states, 'a study in individualism'.

Thanks to the author's researches and love of his subject, we are given a vivid picture of the development of Lloyd's from a proprietary coffee-house into, first, 'a partially disciplined society', and finally, after many vicissitudes, into the body whose name inspires confidence everywhere today. The reader can only marvel, as he follows its fortunes, that the early underwriters managed to keep going through set-backs and scandals, wars and political upheavals, the repercussions of the 'South Sea Bubble', and heavy losses of ships at sea. By 1703 they had begun to compile their own register of shipping, but not until 1771 was the first committee of management elected. Two years later, an ordinary subscriber named JOHN JULIUS ANGERSTEIN, by his own efforts and without the support of the committee, secured rooms in the Royal Exchange for the transaction of the business of Lloyd's, and thus earned the title of 'the father of Lloyd's'. The coffee-house in Pope's Head Alley gave place to a self-governing and partially organized society. There was still a long way to go and much to endure before that society achieved the stability and strength on

which its reputation rests today. It would seem that all the lessons had to be learnt the hard way.

In 1811 a trust deed vested in Lloyd's committee legal powers to manage the affairs of the subscribers: thus for the first time giving them a constitution. The title 'member of Lloyd's' was recognized for the first time in 1843, and three years later the members were divided into 'underwriters' and 'non-underwriters'. Even so, it was many years before any attempt was made to improve the security of a Lloyd's policy, or to obtain recognition of the committee's responsibility for seeing that underwriters had the means to fulfil their undertakings. This 'surprising gap' had to wait until 1908 to be filled.

The chapter headed 'The Coming of the Audit' is of particular interest to our readers. The first few years of the twentieth century were not happy ones for Lloyd's. In 1903, the City was shocked by a scandal which exposed the weaknesses of the existing system, ruined one underwriting member, caused the failure of three 'Names', and the impoverishment of a fourth, and directly led to the inauguration of the insolvency audit and a trust fund for premiums. Prime mover in these reforms was MR CUTHBERT HEATH, who was already using a scheme by which the auditors examined each of the last three 'closed years' to ascertain what percentage of the premium income had been settled at the end of each year, and applied these percentages to the open years as they came under audit. This scheme, which marked the beginning of a close association with the accountancy profession, was officially adopted in 1908, and though a number of changes have been made through the years, the principle remains. 'Adopted for the protection of policyholders, the audit for nearly fifty years has been the Names' sheet-anchor', says MR GIBB.

To the part that Lloyd's played in two world wars, the many individuals to whose wisdom and integrity it owes its great name, and the acquisition of its new site in Lime Street, we cannot do justice here. Our readers will find that all this, and much more, makes most agreeable reading in *Lloyd's of London*.

¹ *Lloyd's of London*, by D. E. W. Gibb (Macmillan & Co Ltd, London, 25s net).

INSURANCE AGAINST PROFESSIONAL
NEGLIGENCE

A NEW PROBLEM?

by SPENCER G. MAURICE

THE decision of the House of Lords in *Lister v. Romford Ice and Cold Storage Company Limited* ([1957] 1 All E.R. 125; [1957] 2 W.L.R. 158) on the employer's recourse against the employee wrongdoer¹ has implications when applied to the case of the professional man – and to the accountant no less than to any other – which are alarming and not immediately apparent. Before examining them it will be convenient briefly to restate the facts of the *Lister* case.

Vicarious Liability and Subrogation

The appellant, when driving a lorry in the service of the respondent company, negligently injured his own father, who was employed as his mate. The injured man sued the respondent company on the ground that it was vicariously liable for its servant's wrong and recovered £1,600 damages. This amount was recovered by the respondent under the terms of an employer's liability policy at Lloyd's. That policy contained the usual clause whereby the underwriters were subrogated to the rights of the assured and given the right to prosecute in the name of the assured for their own benefit any claim for indemnity or damages or otherwise, and to have full conduct of such proceedings. The underwriters accordingly issued a writ in the name of the respondent, claiming that the respondent, as a joint tortfeasor with the appellant, was entitled to contribution under Section 6 of the Law Reform (Married Women and Tortfeasors) Act, 1935, and to damages for the breach of an implied term in the appellant's contract of service that he would use reasonable skill and care in driving the lorry which was entrusted to him. In the result this claim succeeded.

Their lordships held not only that a servant owes a contractual duty of care to his master, so that a breach of that duty founds an action for damages for breach of contract, but also that it is impossible to imply a term in the contract of employment that the master will indemnify the servant against all claims or proceedings brought

against him for any act done by him in the course of his employment or a term that the servant will receive the benefit of any contract of insurance effected by the master. It is a general principle that a man insures at his own expense for his own benefit.

Professional Man Employed at a Salary

Since the professional man (save always the barrister) may be sued for negligence in the course of his professional duties, and the negligence and dishonesty of his servants, it is common practice for principals to insure themselves against the consequences of successful claims against them.² But what is the position of the man who is not a partner? The problem has already received consideration from the point of view of assistant solicitors: the case of the accountant who is not a partner, but is employed at a salary, would appear to be identical. If such a servant – for such in law he clearly is – commits some negligent act, as a result of which a client of his master, the firm, suffers loss, it is not to be disputed that the firm is vicariously liable, that damages may be recovered against the firm, and that, if there is a suitable insurance policy in force, the firm may recoup its loss from the insurer.

It is now clear that the firm might recover contribution as a joint tortfeasor and damages for breach of contract from the employee who is at fault, and, while it is not for a moment suggested that any firm is likely to start proceedings against an employee in such a case – the nominal respondent in the *Lister* case made it quite clear that it was not a voluntary party to the proceedings – the point is that the insurer, by virtue of the principle of subrogation, is also permitted to do so once a claim under the policy has been paid.

There is much to be said, from the point of view of public policy, in favour of not letting the negligent and irresponsible workman get away scot free, and one may applaud *Lister's* case

¹ For a full statement of the facts of this case and the principles involved see 'The Ultimate Responsibility' in *The Accountant*, dated April 20th, 1957, page 447.

² This aspect of insurance was considered in 'Accountants' Indemnity Policies' in *The Accountant*, dated January 19th, 1957, page 58, in the light of *West Wake Price & Co v. Ching* ([1956] 3 All E.R. 821; [1957] 1 W.L.R. 45).

because it may serve as a salutary warning to those who bother too little about taking care in the belief that it will always be someone else who will pay for the consequences of their negligence. But the law takes on a different complexion when the defendant is a professional man who, while acting generally with the utmost care, is guilty of some momentary lapse. It is right that he should be protected.

The Problem can be Solved

Fortunately, there is nothing insuperable about the problem. What is important is that the existence of the problem may not yet have been universally recognized and, therefore, that steps may, in many cases, not yet have been taken to solve it. Perhaps the most obvious solution is for the accountant who is employed at a salary to take out his own indemnity policy, but it is thought that such a solution is likely to be unpopular. A better course would appear to be to name in any policy taken out by the firm not only the partners but also any accountant

employed at a salary. It appears that in practice underwriters would be unlikely to increase the premium because of the additional names; if they did, and if the principals were unwilling to pay the increase, it is probable that the additional assured would be prepared to meet it for the sake of the security provided.

An alternative to making the policy cover employees as well as principals is to take steps to destroy the insurer's right to be subrogated. Presumably, if it was a term of the contract that the employer would not exercise his contractual rights or his right to contribution against his employee in the event of a successful claim based on vicarious liability for the employee's wrong, there would be no right to which the insurer could claim to be subrogated. Again, the insurer may be prepared to waive in advance his right to subrogation, though it is questionable whether such a waiver would be effective if not under seal and unsupported by consideration. At all events, whatever is done, it is well that it be done quickly.

THE LONG-FORM AUDIT REPORT MANAGEMENT ACCOUNTING AT ITS CHEAPEST

by KENNETH S. MOST, LL.B., A.C.A.

FEW have the opportunity to know as much about the financial and organizational problems of small businesses as their auditors. Although the work done by the auditor is usually directed to the ascertainment of profit and tax computation, coupled with the prevention and detection of fraud and error, the annual audit provides an opportunity for a limited but valuable exercise in the art of management accounting, which can be presented by means of a long-form audit report.

On the Continent, it is usual for auditors to submit their reports in the form of lengthy memoranda or small booklets. These documents quote the authority for the assignment, describe the scope of the audit, list the records seen and include explanations of significant figures in the accounts, often by means of schedules incorporated in the text. In the U.S.A., on the other hand, the long-form audit report often supplements the short audit 'certificate' in the prescribed form. It is addressed to management, and may be referred to in the 'letter of transmittal' which contains the short-form report; in this way it permits shareholders to find out more about the activities

of the businesses in which they have invested their money than is apparent from the published accounts.

In this country, a long-form report could only supplement any report required by statute, although there appears to be no reason why it should not replace the customary report in the case of sole traders, partnerships and others. In all cases it will be necessary for the auditor submitting a report of this kind to take position on the figures which it contains. In my opinion, it is preferable for him to specify the sources of his figures (i.e. his separate audit report for the year; his or another auditor's reports for previous years; the audited books and records of the client, etc.) rather than attempt a composite form of words to cover all eventualities.

The value of the long-form audit report to the auditor is that it enables him to go on record in respect of matters which are a proper subject for his comment, but which, in his judgment, are not sufficiently important to be imprinted upon the face of the balance sheet. It can also help him to emphasize the necessity for system work or tax planning which his client is hesitating

over before undertaking, generally because of his inability to see the benefits which will follow from the extra expense involved.

From the client's point of view, the long-form audit report is a more satisfactory vehicle for advice than a desultory conversation in the accountant's office or over the telephone. In addition, situations arise in the life of a business when such a report can be of considerable value, for instance, on the admission of a partner, formation of a company, sale of the business as a whole or its merger with another existing business. Even where application is made to a bank or other source for loan capital, many legitimate questions can be satisfactorily answered by making the long-form audit report available to the other party.

Matters Dealt with in the Report

The matters which belong to a report of this type are the client's methods of accounting and record-keeping generally, and his system of internal control. Comments on record-keeping can cover budgeting and cost control.

Many small-business men carry their budgets under their hats and compare intentions with achievements at frequent intervals. This does not mean that formal budgeting is superfluous for them. In the first place, intentions change, and it is important to know which intentions the actual results are to be compared with. Secondly, the mental calculation of profits can be fairly accurate, but the same process does not work so well where losses are incurred. There is a natural tendency to discount one's own mistakes which renders the mind unclear in this case. Further, many businesses are started with inadequate working capital and suffer from periodical crises as the deficiency makes itself felt; budgeting can reveal their points of incidence well in advance, so that provision can be made for avoiding some, at least, of their damaging effects.

Although budgeting may not be as widespread a practice as it should be, practising accountants do take an interest in the book-keeping methods of their clients, and try to ensure that they are adequate for accounting purposes. Few small businesses, however, are capable of preparing prompt monthly or quarterly accounts from their records as they stand, and with the sudden changes in business conditions which characterize the present time, this fact must be recognized as dangerous. Either a series of losses is continued for want of corrective action, or else a favourable trading wind is allowed to pass by because its full

implications are not presented to management in a prehensile form.

It is usually the case that the small-business man fears the cost of a satisfactory book-keeping system because he cannot calculate it. The obvious example of this is provided by the 'Situations Vacant' columns of newspapers, where unqualified accountants are frequently sought for responsible accounting positions. In fact, although the initial pay differential may be a few pounds weekly, the usual course of events is that within a few years the unqualified man arrives at a salary which puts him on the same level as the qualified man, without, of course, having obtained the qualification in the meantime. Any presentation of the benefits to be obtained through an adequate book-keeping system must therefore include an estimate of the cost of operating such a system, and comparison with current costs of the inadequate records.

There is no doubt that the use of cost accounting by small businesses leaves much to be desired in the majority of cases, although for many of them it would be even more important than financial accounting. Accountants themselves have been awed by such phrases as 'watch the cost of costing', and 'profits depend upon sales, not costs'. The late James Agate wrote that his colossal personal needs were responsible for his high level of earnings, and in a way this is true of business in general, namely, that money spent on productive work pays a dividend. The notion that costing is unproductive work has to be fought.

Here, too, the long-form report should not only draw attention to deficiencies in the cost accounting records but also estimate the cost of operating a satisfactory system, preferably integrated with the financial records, and a comparison with existing costs.

Ratios

Even where the client's records are not sufficient for any searching analysis of causes underlying operating results, much can be achieved through the examination of significant balance sheet and profit and loss account ratios.

In some cases it is the ratios which are significant, in others the significance lies in changes of ratio from year to year, or in trends. For this reason, comparative figures are essential, and cumulative figures for the last two, three, or even five years can be very helpful.

From the balance sheet, ratios of current assets to current liabilities show increase or decrease of working capital. Current assets to fixed assets shows the rate of investment in the latter.

Debtors as a percentage of creditors draws attention to an important working relationship, and may lead to a reconsideration of the periods of credit received and given. The percentage of inventories to total current assets is an indication of over- or under-investment in stocks and work in progress.

From the profit and loss account, we have the ratios of: returns to sales; cost of sales to net sales; administration and selling expenses to gross profit; and several more. They are a valuable supplement to the common practice of showing all profit and loss account items as a percentage of sales.

In addition to these, there is much to be learned from an examination of ratios between items in the balance sheet and related items in the profit and loss account. Credit sales to receivables, for instance, is a control for turnover on credit. Cost of sales to finished goods in stock indicates turnover in finished goods; it should, of course, be applied for each product separately. Cost of sales to fixed assets reveals the degree of plant utilization achieved, and gross profit to fixed assets can be used to evaluate plant utilization.

Where cost accounts do exist, there is a very wide field indeed for the ascertainment of significant ratios. Properly speaking, however, they do not belong to the long-form audit report; but they can be utilized to explain or emphasize a conclusion drawn from the financial accounts.

Other Matters for Inclusion

Constructive comment can also be included on such matters as the adequacy of working capital, the composition of inventories and current accounts, and target figures for stocks, as well as for customers' and suppliers' credit. In this connection, it is frequently necessary for the accountant to raise his sights and to take into consideration, for example, January tax payments due following a December 31st closing date, or changes in inventories, debtors and creditors between the year's end and the date of his report.

Comments on the adequacy of internal control methods are sufficiently important to justify a separate section and not to be included in the section dealing with the accounting records. A recommendation that the book-keeper should not handle cash, for example, is independent of any consideration of the books themselves.

Insurance cover is another topic which can be dealt with, from the point of view of adequacy of cover, risks insured against and types of policies.

Finally, reference should be made to the

potentialities of personal budgeting and tax planning. The incidence of taxation is such that these two matters are intricately related. It is the duty of the accountant to regard the client's business, not as an isolated economic function, but as a part of his total economic activity, and to point out where it affects his other financial interests, such as his life insurance or his long-term investment programme. It is still possible for an individual so to arrange his affairs that his fortune can escape a part, at least, of the taxes and duties which it would otherwise attract, and where applicable, the client's attention may legitimately be directed to this subject.

The Form of the Report

The form of the report is important for two reasons. First, the practitioner must be able to marshal his thoughts quickly, and give his main attention to matters of content. Secondly, he must be able to delegate as much as possible of its preparation to the typist. For these reasons it is advisable that a model report should be prepared and codified numerically, so that all reports submitted will contain the same reference numbers for sections dealing with the same matters. For example, the costing section may be given the number 5, a review of existing cost records 51, recommendations for cost records 52, and so on.

For the same reasons, a number of standard phrases can be drawn up and given reference numbers for use in all suitable cases. For instance, in the costing section, such a phrase (reference 50) might run: 'In the absence of a satisfactory set of cost records it is not possible to prepare accurate monthly reports; without monthly reports it is not possible to ascertain results in time to take positive action.' It is only necessary for the practitioner to write '50' in his draft report for the typist to do the rest.

It is preferable for the report to take the form of a letter addressed to the client, or the directors of a company, as this personal touch aids readability. It should begin with reference to the authority for the audit engagement, and if no letter of engagement exists, the opportunity can be taken to specify the scope of the work done, e.g. thorough audit or test-audit; interim and final; or final only. The period covered is important.

The legal status of the client's business should be mentioned (public or private company; partnership, etc.), and any changes which have taken place during the period. The long-form report may be used by third parties to whom

these facts are not necessarily known. Similarly, changes in organization and methods of doing business during the period should also be specified.

Comments on the existing financial records should come next, together with recommendations concerning their improvement and the institution of budgetary control. This can be followed by a review of the costing records and suggestions for their installation or improvement. If there is any reference to, or criticism of, forms used within the business, copies of such forms should be appended, and possibly drafts of improved forms suggested in the text.

Following this, comments on the actual figures in the financial accounts can be presented,

analysis of operating results and illustration by means of ratios, and the appropriate conclusions can be drawn.

A separate section should deal with matters arising out of the audit as such, recommendations for improved internal control, better physical custody of cash, raw materials and other inventories. Finally, comments on insurance cover, tax planning and any other special items will conclude the report.

It will be appreciated that the expression 'long-form report' is relative, and its objects may well be capable of achievement in a few chosen paragraphs. By and large, however, too much detail is preferable to too little, precisely because the opportunity will only present itself once a year.

FINANCE FOR PRIVATELY-OWNED BUSINESSES — II

Including Reorganizations to Facilitate the Payment of Estate Duty

by A. R. ENGLISH, A.C.A.

FINANCE FOR ESTATE DUTY

(52) So far in this paper we have only considered the financing of the company, but to conclude at that stage would be to ignore what may be the ever more pressing problem surrounding the privately-owned business, the question of financing the estate duty which may be payable on the death of the holder of any investment in such a company, be it in ordinary or preference shares or in loans, secured or otherwise.

(53) Of course, the simplest solution to such a problem would be to ensure that no such holding would fall to be regarded as passing at death. Whilst such a course may occasionally be practicable, there are many holders who could never prevail upon themselves to dispose of all their investments in a private company. This reluctance must not be attributed in every case to obstinacy or greed. To realize unquoted investments and re-invest in quoted securities, or say, private mortgages may result in such a fall in income as to endanger seriously an established standard of living. Family friction, jealousies and fear of victimization are too often the reasons for retention of shares giving control of a business.

The Importance of the Time Factor

(54) Accepting the fact that there may be good reasons for retaining investments in privately-owned businesses, the obvious step to take is to consider to what extent a reorganization of holdings can be

carried through so as to minimize the impact of estate duty. Here, as in so many business dealings, time is the essence of the contract. To the average healthy person to anticipate death within the next five years is repugnant, but that is no good reason for delaying the proposed reorganization, even for a week. In the case *Re Owen*, under the old three-year rule, duty was successfully claimed on the death of a donor on June 1st, 1944, in respect of gifts of money by way of cheques drawn on May 22nd, 1941, but not cleared until June 4th, 1941.

(55) In all these matters of estate reorganization the professional adviser should never cease from emphasizing how much more flexibility of manoeuvre a living holder usually possesses as against that attributable to his executor. The living owner can deal with his investments at will, whilst the executor, even if there is a will, has to delay action until probate has been granted.

(56) Once a client has accepted the necessity to put his affairs in order, the professional man should press on with the utmost expedition to completion. Although this is a matter which can never be undertaken lightly and carried through without due care and thought, interminable proposals and counter-proposals can so tire an elderly person that interest is lost and the whole matter shelved until it is too late.

The Testator's Will

(57) In the first place, I would say that no scheme of reorganization can be propounded unless the architect thereof is aware of the contents of the will, or, if no will is in existence or a new will is con-

The concluding part of an address delivered on July 13th at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

templated, the wishes of the client as to the ultimate disposal of the estate. One obvious example of the importance of the will springs to mind in cases in which life tenancies are created or annuities bequeathed. Under such conditions the inclusion in the estate of fixed income bearing investments may be of primary importance. It is as well to remember that the wishes of the donor as evidenced in the will relate, with due allowance for the anticipated course of future events, to a state of affairs in existence at the time of execution. Events now move so rapidly that confident expectations can easily be falsified. The imposition of a new tax or a subsequent decision of the Courts on the interpretation of a statute can so affect the administration of an estate as to nullify completely the wishes of the deceased. With that in mind, care should always be taken to impress on the client that permanent watchfulness must be maintained in the future even though the envisaged reorganization has been completed. It may, of course, be impossible to carry through subsequent company reconstructions, but it is always possible to amend a will at any time during the lifetime of the testator.

(58) Whilst the wealth and the form in which the other assets of the client are factors requiring the detailed study of the professional adviser, the matter to which the greatest attention should be directed is the company in which the testator holds investments. The capital structure, profit record, accumulated reserves, secured debt and general financial position are vital elements in the appreciation which has to be made.

The Testator's Status - in Control or Otherwise

(59) If the preliminary study of shareholdings, voting rights and directors' powers leads to the conclusion that there is no present danger of a Section 55 valuation being applicable, there may be a great temptation to allow matters to take their course in the belief that the willing-buyer/willing-seller valuation under Section 7 (5), Finance Act, 1894, will not bear too heavily on the estate. Indeed, there may be cases in which the influence of the holder on the conduct of the affairs of the company is so negligible that to suggest any form of reconstruction would invite a rebuff. It is also possible that in companies with restrictive articles on the transfer of shares, the majority holders have a vested interest in ensuring that the estate duty burden on the death of a minority holder is as heavy as possible. A forced sale may be an excellent opportunity for the other members to secure shares on extremely favourable terms.

(60) Fortunately such difficulties rarely ever arise and often the initiative comes from the holders not directly affected, although again the concern may not be entirely disinterested. It may be most embarrassing for them to have to find the money with which to buy the shares thrown on to the market through death or in default to allow a stranger into the house. They may also realize that a scheme to help the aged minority members should also be of assistance to

themselves. If this happy state of affairs can be established, it should be just as easy to carry through a scheme of reorganization as would be the case if the problem concerned a controlling shareholder whose investments were liable to be valued under Section 55, Finance Act, 1940, as amended, by reference to the underlying assets of the company in question.

SECTION 55, FINANCE ACT, 1940, AS AMENDED

Valuation Relief

(61) In view of the reliefs given under Part IV, Finance Act, 1954, it must first be decided whether or not it is desirable to escape from the penalty of a Section 55 valuation. The 1894 Finance Act, provides that the principal value shall be the price which such property would fetch 'if sold in the open market at the time of the death of the deceased'. Although, of course, skilful negotiation can cause weight to be given for foreseeable future events, the ultimate test is the state of the market at the time of death. As against this rigidity, the executor holding shares or debentures valued under Section 55 has the right under Section 30 (1), Finance Act, 1954, to have such values reduced to the sale price, so adjusted as 'to take account of any difference in circumstances at the date of the sale and at the date of the death', if such sale is concluded within three years of death and is made at arm's length to a non-relative. It is of interest to note that the estate duty office has no compensating right to claim extra duty if shares or debentures are sold during that period at a figure above the agreed valuation. Since the sale price has to be adjusted to take account of any difference in circumstances at the date of the sale and at the date of the death, there appears to be no reason why, in special cases, an adjustment should not be sought, even if the sale price exceeded the original valuation. The retention of, say, two and a half years' profit could easily account for a substantial slice of the final sale price. As for the circumstances to be taken into account, it is understood that these will not be confined to those closely allied to the company in question. Changes in interest rates, industrial activity and perhaps in management, are all factors likely to be considered relevant.

Duty Relief

(62) In addition to this relief in valuation, Section 28, Finance Act, 1954, provides for a reduction in duty of 45 per cent on the relevant proportion of the value of any shares and debentures valued under Section 55 as is attributable to the underlying company's interests in industrial hereditaments and plant and machinery used for the purposes of the company's business. For convenience, these assets will henceforth be called 'the specified assets'.

(63) As must be expected, the basis of computing the relief and its apportionment over a company's loan and share capital can give rise to most complex calculations and, if secured bank overdrafts are in

existence, some unusual anomalies. In an article in *The Accountant* of January 8th, 1955, this difference in treatment between a bank overdraft and any other form of borrowing was considered in detail. The conclusion drawn from this study was that for a company to secure its overdraft by a direct charge on 'the specified assets' was inviting a reduction in the 45 per cent abatement of duty given under Section 28, Finance Act, 1954.

(64) It is significant that the saving of duty under Section 28 applies to all classes of share capital and to debentures, and here it should be emphasized that under Section 59, Finance Act, 1940, the word 'debenture' embraces not only the conventional long-term loan capital but also 'any debt incurred by the company for money borrowed . . . otherwise than by way of temporary loan made in the ordinary course of a banking business'. First, considering shares, there are many preference shares whose values either under Section 55 or the 1894 Act will be constant. Although no hardship will arise through the application of Section 55, the 45 per cent relief will still accrue on the proportion of the underlying value of such shares applicable to the specified assets; surely a good reason for keeping the valuation of preference shares under Section 55.

(65) To include debentures as investments also attracting relief is even more surprising and illogical. That being the law, it appears to be every reason for any estate with investments likely to fall under the bane of Section 55 lending as much as possible to the company in question, and so producing the maximum investments possible qualifying for relief. In tendering such advice, it must not be overlooked that interest paid to a member of a director-controlled company will be regarded as a distribution for profits tax purposes.

(66) Although any increase in the total of issued share capital and debentures must dilute the individual proportions attracting relief, the inescapable fact remains that investments whose values are constant between the two bases normally used are, by reason of the 45 per cent relief and the right to substitute sale price for valuation at death, more favourably treated when valued under Section 55 than under the 1894 Finance Act. It must be accepted that there are restrictions in both cases but they need not be insurmountable.

Keeping under Section 55

(67) Following this line of thought one comes to the conclusion that it might be advantageous to arrange an estate so that the testator's holdings of debentures and preference shares fall under Section 55. If, however, to achieve this state of affairs, it is necessary to leave in an estate a substantial block of ordinary shares, the difference between a Section 55 and an 1894 Act valuation of such ordinary shares may be so great, even after allowing for the 45 per cent relief on all classes of investment, that the saving on the preference shares and debentures may be entirely lost. To overcome this difficulty it should be

possible to rearrange the share capital so that control remains with a relatively small block of ordinary shares, for although some of the tests bringing Section 55 into play have been modified by the passing of Section 29, Finance Act, 1954, the first rule that if 'the deceased had control of the company at any time during the five years ending with his death', Section 55 should apply, still stands. In this context a person is deemed to have control if he had, in the words of Section 55 (3) (a), Finance Act, 1940, 'the control of powers of voting on all questions, or on any particular question, affecting the company as a whole which if exercised would have yielded a majority of the votes capable of being exercised thereon'. With this definition before us, is there any reason why the testator at the appropriate time should not convert:

- (a) part of his holding of ordinary shares into non-voting preference shares; and
- (b) another part into non-voting ordinary shares ranking *pari passu* with the remaining voting ordinary shares,

in such proportions as to leave a small block of voting ordinary shares in control of the company? If such a position is established and the non-voting ordinary shares are given away, the retention of the preference shares and voting ordinary shares can result in a considerable saving of duty once the five years necessary to clear the *inter vivos* gift of non-voting ordinary shares has elapsed. In considering such a scheme, the question of the benefits, which term of course includes unreasonable or excessive remuneration, must never be overlooked; it would be so easy for a claim under Section 46 to pick up the savings.

REORGANIZATION UNDER SECTION 36 (4) FINANCE ACT, 1947

A Scheme for Repayment of Capital

(68) It often happens that, despite careful planning, a serious estate duty problem arises from the holding of shares in a family business. Small blocks of shares may be sold to other members for cash. With a large holding this course is seldom possible, for very often the living holders are most reluctant to reduce their cash assets, and by so doing, create a possible estate duty problem at their own death. When the subject company has cash surplus to requirements or has assets on which it can raise loans, a temporary advance to the executors may be appropriate. Such a step, with its profits tax and surtax implications, must be regarded as a palliative and on no account should the loan be allowed to become a permanency.

(69) Let us now consider the steps that a company, not over supplied with cash but owning fixed assets capable of carrying, say a twenty-year mortgage, could take to clear an advance made to the executors of an estate holding, say, 80 per cent of the ordinary shares. The company in question has received considerable profits tax non-distribution relief but has not made any share bonus issues subsequent to April 5th, 1949.

(70) Under such circumstances the following scheme might be helpful:

- (a) The company raises on a twenty-year mortgage such a sum as when added to the cash which will flow in on the repayment of the executors' advance would enable the company to repay its issued capital and still have sufficient working capital to maintain viability.
- (b) The company then hives off to a subsidiary company all its assets with the exception of cash and cash assets equal to the amount of its issued share capital, the consideration for such sale to be, say, redeemable preference shares and ordinary shares in the new company.
- (c) An election is then made under Section 36 (4), Finance Act, 1947, so that the non-distribution relief received by the original company passes over to the subsidiary company.
- (d) The first company is then liquidated on such date as would give rise to the smallest surtax liability by reason of a direction brought about by the operation of Section 253, Income Tax Act, 1952. Naturally no distribution charge will arise on the return in cash of the issued capital and since there was an election under Section 36 (4), Finance Act, 1947, the distribution of the shares in the subsidiary company to the members of the original company will also be free of any distribution charge.

(71) If the amount of cash required to clear the estate duty liabilities is somewhat more than the issued share capital which can be returned free of a distribution charge, it may be better for the original company to raise more on mortgage and return capital in excess of the nominal amount of share capital under issue. The deciding factor will be the potential profits tax liability. If the amount required is considerably in excess of the issued share capital the cost soon becomes prohibitive.

The Creation of a New Capital Structure

(72) Later in this paper, in cases in which there can be no withdrawal of cash, the question of the reorganization of a company's share capital by way of bonus issues as a prelude to the sale of the resultant securities to an institutional investor is considered. From time to time such an approach is found to be impossible as the subject company has not sufficient reserves available for capitalization as bonus issues although in other respects the company is regarded as suitable for investment.

(73) To overcome this difficulty it is usually possible to produce a capital structure containing securities of interest to the institutional investor by using the provisions of Section 36 (4), Finance Act, 1947, to procure that all the assets and liabilities of the vending company pass to the second company in exchange for shares and debentures in that company, provided that in the words of the statute 'the consideration for the transfer consists wholly or mainly of shares in the second company'. Under a scheme of

this nature, such investments, which had been so arranged as to include saleable parcels, would pass to the shareholders of the first company on its liquidation and, if necessary, subsequent sale.

(74) As no new money is being raised, there would be no necessity to seek the consent of the Capital Issues Committee for what is, in effect, a bonus issue.

(75) Another advantage is that the redeemable securities so created would have been given for adequate consideration and would therefore not rank as distributions for profits tax purposes on redemption. This privilege has a countervailing factor in as much as the redemption of such securities by a surtax company might well bring down directions to surtax in view of the provisions of Section 246, (2) (a) (ii), Income Tax Act, 1952.

(76) Although it is difficult to conceive that relief afforded by statute should be attacked under the anti-avoidance provisions of Section 32, Finance Act, 1951, it would be advisable to take advantage of the right to seek a clearance under Section 32 (6) of that Act before completing any such scheme as has been discussed above.

(77) It is of interest to note that under the above scheme the anti-avoidance provisions of Section 17, Finance Act, 1954, have been used for the benefit of all concerned. The creation of the parent-subsidary company relationship on the transfer of the business brings that section into play. In consequence, neither the original nor the new company falls under the penalty of the cessation and new business rules of assessment.

BONUS ISSUES

Various Forms

(78) More frequently the case is met in which it is impossible to withdraw any cash without seriously impairing the company's financial stability. This need be no reflection on the company's status or on the ability of its directors. Indeed, if the company is engaged in a programme of expansion, such a state of affairs may well be inevitable. Faced with such a position the only course to pursue is to open negotiations with one of the institutional investors for the sale of part of the deceased's holding in the company. The fact that the holding in question is not in a form acceptable to such an investor need cause no anxiety. If the company has adequate reserves the creation of marketable securities by way of bonus issues should present no difficulties. It is, however, essential to agree with the outside investor the nature and terms of the proposed bonus issues, for once reserves have been capitalized by bonus issues the company has lost flexibility, and perhaps, with it, the power to create shares of interest to the potential investor. The fact that the capital structure is pleasing to the directors does not in itself provide an investment acceptable to the City of London.

(79) The forms in which reserves may be capitalized are as varied, and as closely controlled by the Capital Issues Committee, as the ways in which new money

may be invested in a company. At one end the issue may be entirely of ordinary shares. In complete contrast a bonus debenture charged on specific assets may be distributed. Between these two extremes are issues of fixed rate preference shares, redeemable or otherwise, participating preference shares, convertible preference shares or unsecured loan stock. In framing any scheme of bonus issues it should never be forgotten that it is always difficult to improve the quality of a share or debenture. It is impossible to convert an irredeemable into a redeemable preference share. To add security to a bonus unsecured loan is never an easy task, especially if by so doing a constructive repayment has to be made and, in consequence, profits tax distribution charges are raised.

Taxation Repercussions

(80) The bonus issues in themselves would not be regarded as distributions for profits tax purposes until redeemed or repaid. Whilst the dividends paid on any class of share capital would form part of the gross relevant distributions, the position of the interest paid on a bonus loan is more obscure. Having regard to the provisions of Section 36 (1), Finance Act, 1947, it must be accepted that if such interest is paid to the members of a director-controlled company it would be treated as a distribution. The official view, however, goes further and seeks to treat as a distribution of profits, interest paid on such bonus issues, irrespective of the relationship of the recipient to the company. So far as I am aware, this issue has not been tested in the Courts.

(81) As the law stands at present, a bonus issue made by a United Kingdom company is not regarded as taxable income in the hands of the recipient shareholder. In view of the recommendation of the Royal Commission on Taxation contained in paragraph 800 of the Report that bonus issues of debentures should be treated as surtaxable income in the hands of the recipient, it is hard to forecast how long this state of affairs will continue. When it is realized that no suggestion was advanced for a like treatment of a bonus issue of redeemable preference shares, the discrimination against the privately-owned company becomes apparent. A bonus debenture is rarely ever issued by a public company, whilst many issues of bonus debentures by private companies are made solely for the purpose of financing estate duty and then only because it is impossible to find an institutional investor willing to purchase a bonus preference share in such a company.

(82) Whilst it is usually possible to secure a surtax clearance up to the year prior to that in which the bonus issue is to be made, it must be accepted that the making of a bonus issue takes a surtax company outside the protection of the Chancellor's 'umbrella'. Unless an extremely liberal dividend policy is followed, it is almost impossible to avoid directions if annual redemption of bonus issues commences within a few years of issue. Indeed, even if the issue has a long life, say, eighteen to twenty-one years,

it is inadvisable to create by annual transfers from profit and loss account a redemption reserve. By so doing, it becomes difficult to refute any suggestion that profits which could otherwise be distributed are being retained to finance the ultimate redemption of a bonus issue.

(83) In itself the making of a bonus issue does not add any power to the arm of the Special Commissioners. They, in the terms of Section 245, Income Tax Act, 1952, have to establish that the subject company has not distributed a reasonable part of its income by way of dividend and in assessing what is reasonable they have to pay regard to current and future requirements necessary or advisable for the maintenance and development of the business.

(84) Provided there has been no investment of funds outside the business and in particular in a form suggesting the setting aside of cash to finance the ultimate redemption and so refuting any claim that profits were being retained to finance future developments, the subject company is usually safe from attack if a reasonable dividend policy is pursued. Therefore as a general rule no such company should invest in capital redemption or like policies or buy medium-term stock exchange securities. It is far safer to repay all loans and mortgages for which consideration has been given and to see that the company has the maximum amount of unencumbered pledgeable assets when redemption is due. As a further precaution an attempt should be made to take the company outside the mischief of Section 245 as soon as possible.

FORMATION OF A HOLDING COMPANY

Exchange of Shares

(85) It can happen that a deceased client was a shareholder in a number of companies with closely linked business activities. Since it is extremely unlikely that a share interest in a non-integrated group would be of interest to an institutional investor, the obvious step is to bring all the companies concerned under the umbrella of a holding company by means of an exchange of shares and perhaps debentures in the holding company for shares in the acquired subsidiary companies, preferably in such a form as to leave no preference or ordinary shares in the subsidiary companies held outside the group; an operation which, since no new money is being raised, would not require the consent of the Capital Issues Committee.

Taxation Aspects

(86) Provided one or more of the classes of shares and debentures of the holding company are securities of interest to the potential investor, the scheme has the same effect as a bonus issue, with the additional advantage that redemption of any of the shares or debentures issued by the holding company will not rank as distributions for profits tax. If, as is most likely, the holding company is controlled by less than five persons, as specially defined, a difficult surtax position can emerge unless the company is so organized that it can be taken outside the danger of

the automatic surtax direction made on an investment company by being treated as a co-ordinating company under Section 262 (7), Income Tax Act, 1952.

(87) If the holding company receives from the operating companies only sufficient dividends to service the dividend requirements of the holding company's share capital there will be little point in creating a profits tax group. Indeed, it may be disadvantageous if, in consequence, abatement relief is lost. A different position arises if part of the income of the holding company has to be applied in payment of debenture interest. To transfer, without a grouping notice, a substantial dividend to service interest may give rise to unnecessary profits tax liabilities. Care should therefore be taken to see that the holding company is not precluded by Section 30 (1), Finance Act, 1956, from giving a valid grouping notice, a right which can be established by arranging that the main function of the principal company is to be the holding of investments and properties as required by Section 19 (4), Finance Act, 1937.

Partial Hiving-off

(88) The holding company technique need not be confined to the linking of associated businesses. The same method can be used in cases in which it is desired to segregate assets previously held in a single company. The position can arise in which a company owning valuable freehold and leasehold property is not earning profits commensurate with the true invested capital. As a single unit the company does not present an attractive front to a prospective investor. The low profit return may imply managerial deficiencies, but there may be excellent reasons for continuing such a state of affairs especially if, by nursing the property, a substantial capital gain may materialize at some future date.

(89) If, under conditions such as outlined above, it is necessary to raise funds with which to pay estate duty, it might be advantageous to create a company of investment merit by 'hiving-off' to a subsidiary company the business and business assets, other than the freehold and leasehold properties, of the original company. Such a division carried through, the original company becomes a holding company owning freehold and leasehold properties and shares in a subsidiary company.

(90) Provided, after the hiving-off, the original company is precluded from trading or charging its assets, its preference share capital, if the properties can be leased on appropriate terms to responsible tenants, assumes a status not far removed from that enjoyed by a debenture. Naturally one of these tenants will be the subsidiary trading company and, even though that company's profit may not be significant in relation to the capital invested in the group, it may still be large enough to carry a rent which in the accounts of the holding company would provide sufficient income to service a bonus issue of redeemable preference shares or debentures. Of course, the margin may be fine, and to interest the

institutional investor a line of ordinary shares in the holding company may have to be made available at a conservative price. As distasteful as such a course may be to the parties seeking finance, it still may be a better proposition than the immediate sale of valuable land and buildings.

(91) Another advantage of such a scheme, which can be carried through under the framework of Section 17, Finance Act, 1954, is that it provides a vehicle whereby new management can be attracted into the trading side by the offer of an equity interest without calling upon the newcomer to invest substantial sums in freehold and leasehold property.

THE ROLE OF THE ACCOUNTANT As Adviser and Negotiator

(92) In this paper I have endeavoured to present both sides of the problem concerning the financing of the privately-owned business, for without such an understanding it is impossible for any professional man to tender adequate advice on such a complex problem. In essence, there should be no difference between the method by which new money can be infused into a public company or its private counterpart. Both are legal entities whose liabilities are not those of its members; as bodies corporate they are capable of concluding binding contracts. The conduct of their affairs rests with a board of directors charged with the duty of running the business at as profitable a level as is lawfully possible.

(93) Despite these similarities, there is, however, one fundamental difference between the two classes of company. The vast capital investment and the fund of executive capacity required by many types of industry or by companies of any size or industrial complexity have resulted in many companies being directed by groups of men whose interests as capitalists are relatively small. Indeed, one of the outstanding features of this age is the emergence of a financial gap between the managerial side of many large companies and the owners of their share and loan capital, a distinction which appears in its most extreme form in the organizations collectively known as the 'institutional investors'.

(94) The financial interest of the directors in a public company may be so relatively small that they feel no sense of personal loss if forced into a hard bargain by the purveyors of capital and, in consequence, enter into financial negotiations with an open mind. On the other hand, in the case of privately-owned companies the directors negotiating finance do so in the dual capacity of managers and equity owners. It is small wonder that their sense of proportion at times breaks down. Many are inexperienced in negotiations of this nature and cannot realize that the potential investor has interests to protect and rights to maintain. The professional investor does not exist merely to enable families to build up prosperous businesses. He must also make money out of the successful companies he backs to cover the losses he will make on the inevitable failures.

(95) In this field of financial negotiation the practising accountant can play an important part. Unlike many public companies only a few private companies retain the services of a full time finance director. Therefore, when the need arises, who should be better qualified than the company's auditor to consider and advise on schemes of finance? If he is called upon to assist in such a task let him approach it in an attitude of realism. He will do his client company and himself no good by indulging in optimistic day-dreams; the financial house will have plenty of private yardsticks with which to estimate future profitability. Unbalanced share and loan capital structures which, if adopted, would leave the supplier of the new money with all the risks and the existing owners, whose capital is already heavily in risk, with all the profits will not deceive any financier. To give a client an inflated idea of the worth of his business is a certain way of ensuring that the only money the company will raise will be in the form of a secured loan. If preference share capital is in mind, he should compare the capital and income cover being offered with like figures from comparable public companies and then remember that one is a marketable share and the other is not.

(96) The same standard must also apply to the valuation of ordinary shares. The accountant should also remember that there is a vast difference between the value of a controlling interest and that of a minority holding. Mr G. L. C. Touche in his paper at last year's summer course on 'Investment in stocks and shares' concluded with some practical guides to action in the investment world¹. The two following are most appropriate to the subject under consideration:

'The absence of a market, *de jure* or *de facto*, greatly increases the risk;

Cut your losses, run your profits;'

for it is the absence of the power to cut losses through the non-existence of a market that causes, *inter alia*, the investment manager to require greater capital and income cover and higher dividend returns from investments in a private company than from a quoted share. In advising on sales of shares in privately-owned business companies this factor should always be present in the mind of the accountant.

(97) A professional adviser should also realize that, except in the case of advances covered by adequate security, the institutional investor will undoubtedly require certain restrictions on the activities of the company and its directors. He may well expect his investments to be protected against the directors unduly burdening the company with onerous mortgages and loans without prior consent. Since it is unusual for the family directors to have service contracts, and the taxation advantages of distributing profits in ways other than as dividends on ordinary shares are often substantial, the investor whose only reward will be from the dividends paid, will naturally expect limitations on directors' emoluments. If these points are raised, as most

certainly they will be, they should not be regarded as reflections on a client's integrity. They are the safeguards required by men with full knowledge of the frailty of human nature, who, taking the long-term view, are also aware that the directors who control the company will one day pass and others, perhaps less scrupulous men, take their place.

(98) When advising clients on the steps to be taken before approaching a financial institution, many accountants appear to overlook the importance which that body of investors attaches to surtax clearances. Indeed, the majority of institutional investors will not consider the furnishing of capital to a privately-owned company unless it has received such clearances up to and including the period covered by the latest accounts. I am often at a loss to understand the adverse reactions displayed by accountants to a suggestion that the accounts of their client company should be submitted to the Special Commissioners in the manner required by Section 252, Income Tax Act, 1952. Surely it is better to clear up the problem at regular intervals by seeking a clearance annually, rather than to allow the matter to stand over until the question can be burked no longer and the retentions of six years have to be reviewed at a single scrutiny.

As Nominee Director

(99) The attitude of the various institutional investors towards the appointment of a nominee as a director varies greatly. Some insist on such an appointment to the board of every company in which they have a shareholding. Others take such a right, and only exercise it in exceptional circumstances. In the case of certain institutions the nominee is either a director or a full-time employee of the investor. A more common practice, and it has the merit of economy if the company operates at a distance from the City of London, is to invite a local professional man to undertake the job.

(100) It thus happens that from time to time the institutional investor will invite the auditor to become its nominee director. In the case of a public company or non-exempt private company such an appointment would call for the resignation of the proposed director or his firm, if he was a partner in a firm, from the position of auditor to the company in question. There is, however, a saving clause in the case of an exempt private company whereby one partner may be a director whilst another partner can act as auditor. In his paper on 'Professional Ethics' presented at last year's summer course, Mr D. V. House made the following personal comment on this matter: 'My view is that, except in special circumstances, it is not desirable for one partner of a firm to accept appointment as auditor of an exempt private company of which another partner is a director.' With respect, I must say that I share that view.

CONCLUSION

(101) In the paper which I have presented to you I have endeavoured to consider not only the mechanics

¹ See *The Accountant*, September 29th, 1956, at page 314.

of financial schemes but also the reasons for the investment policies pursued by the various institutions furnishing capital. The infusion of new money into a company on a long-term basis should be regarded as the creation of a partnership, and, like all partnerships, the relationship must be nurtured by mutual confidence and respect for the other man's viewpoint. It is for that reason that I have given some time to a study of the sources from which the privately-owned business can draw further capital. The amount of funds in the hands of the managers of the various organizations considered in this paper is immense. If present tendencies continue, the sums involved will grow larger; indeed it is expected that at its peak the investments of one self-administered pension fund alone will exceed £250 million.

(102) As vast as these funds may be, so equally are their present and potential liabilities. The cost of administering a large investment portfolio can be an expensive item which need bear no relationship to the amount of money involved but often is directly related to the number of individual investments. For that reason investment in private companies in relatively small units imposes a burden on investment managers which can only be compensated by the prospect of better income returns. The commitments of the institutional investors, particularly in relation to future pensions due over an extremely wide span of time and with serious economic consequences if not honoured, are such that the investment policies of the managers of these funds must be dominated by the necessity to maintain a portfolio balanced not only in the spread of risk but also in the timing of repayments. To achieve this state of affairs may require as much skill in the part of the investment manager as has been shown by the designer of the scheme of finance required by a company.

(103) No company, either by reason of its vastness or its smallness, automatically acquires the right to preferential treatment when seeking to raise new money. In a free economy the market-place must be the final arbiter. To introduce an element of subsidy into the provision of finance for the unquoted company might well perpetuate businesses which do not deserve to continue. Organizations have been specially set up to provide finance for the smaller companies, but they too have no Government assistance and must depend on their capacity to earn profits to justify their existence.

(104) The reluctance of the members of a prosperous privately-owned company to allow an outsider into the equity of the company is an understandable but often short-sighted policy. No one can estimate with certainty the ultimate requirements of an expanding business. To refuse to allow the one class of investor who ultimately may be the only source of risk capital, to have more than a limited participation in profits until all other means of raising capital have been exhausted is not the way to create the good relationship which must exist between the business and its financial backers.

(105) To the professional man I would emphasize that the schemes I have advanced are not exhaustive. By the very nature of the problems posed by companies of the class under consideration it is impossible to prepare a blueprint suitable for all and every company. Every case must be considered on its merits under economic, financial and fiscal conditions which are never static. To the accountant in practice it should be regarded as a challenge, but let him never forget that whatever solution he suggests it will have to pass the critical eye of men whose experience in such matters may be far wider than his own. Also as the facets of the problem are many and varied, he should never let pride stop him consulting an expert on any aspect with which he is not fully conversant.

(106) To the successful business man I would say never despise the financier for endeavouring to drive a good bargain. After all, that is the reason why most of our successful business men are successful.

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(Concluded.)

Weekly Notes

Australian Budget Reliefs

The Australian Budget for the year ending June 30th, 1958, introduced this week, involves tax concessions – mainly to the business community – costing £A57 million a year and additional social service benefits costing £A20 million. Company tax rates fall by 6d in the £ and depreciation rates (on the diminishing value basis) go up by 50 per cent. The Government are examining the possibility of a flat rate withholding tax for dividends paid to non-residents, instead of assessing such dividends in the ordinary way; but any change will not begin before the end of the current financial year. The allowance for dependent relatives goes up by £A13 and the exemption limit for men over 65 and women over 60 goes up from £A390 to £A410. Payroll tax will apply only to those employers who pay out more than £A200 a week. There are some reductions in sales tax but on the other hand new duties of 1s a gallon on diesel oil used by road hauliers and 6½d a gallon on aviation kerosene, will be imposed to help meet the cost of roads and air transport facilities.

Works of Art and Estate Duty

Section 30 of the Finance Act, 1953, and Section 34 of the Finance Act, 1956, empower the Inland Revenue to accept works of art and certain other chattels in payment of estate duty in certain circumstances. Experience in applying these sections has shown the need for some independent body to advise on the valuation of such chattels. The Chancellor of the Exchequer has now announced that he will set up a panel for this purpose under the chairmanship of Lord Rockley, who is an authority on porcelain. Hitherto the Treasury has had the advice of the national museums and galleries, while executors normally employ commercial valuers. Advice from the new panel should speed up agreement in such cases.

An announcement has also been made by the Treasury about works of art which, after having themselves been exempted under Section 40 of the Finance Act, 1930, are offered in satisfaction of estate duty. Such chattels, if sold in the ordinary market, attract duty on the proceeds. The Treasury state that it will be the Chancellor's policy in determining the prices offered to deduct 75 per cent of the value of the exemption, leaving the other 25 per cent with the executors. The Minister of Works will follow a similar policy when buying exempted works of art under Section 5 of the Historic Buildings and Ancient Monuments Act, 1953. This policy accords with the recommendation of the Waverley Committee on the export of works of art that, where an export licence has been refused subject to a museum or gallery offering a fair price, the fair price should be assessed on the basis that the main value of the exemption should go to the museum or gallery, not to the seller.

Canadian Company Accounts Standards

While the Canadian Companies Act of 1934 set a high standard of disclosure in financial statements at the time of its appearance, subsequent developments in that country and in the United Kingdom and the United States have made the requirements of the Act inadequate in comparison with current accounting practice. Realizing this, the Canadian Institute of Chartered Accountants have endeavoured, in recent years, by means of periodic statements, to encourage fuller disclosure in company accounts. The first of these bulletins appeared in 1946 and now, as a result of a report published in 1953 by a committee set up by the Canadian Institute to consider company legislation in Canada, a new bulletin, revising the original of 1946 and incorporating recommendations made in subsequent bulletins, has been produced.¹

Because a common language has facilitated the interchange of ideas between the American continent and this country, accounting thought as regards the presentation of company financial statements on opposite sides of the Atlantic has progressed along broadly similar lines. There is, in consequence, little in the Canadian Institute's recommendations which is not already known and practised in the United Kingdom. Perhaps the most noteworthy departure from our accepted concepts is the suggestion that accountants should encourage clients to disclose total sales or turnover in their profit and loss accounts, an innovation not yet looked upon with favour in this country by company managements.

It is interesting to read through these carefully-phrased precepts which, although their compilers describe them as 'minimum standards only', indicate clearly the basic requirements of an informative set of accounts in just over nine pages of text.

Residence and Income from Abroad

A new booklet entitled *Residence and Income from Abroad*, has recently been published by The Association of Certified and Corporate Accountants.² Its purpose is to revise and replace two earlier publications which dealt with restricted though important aspects of the subject: *Income from Abroad: The Assessment of Remuneration and similar earnings to United Kingdom Income Tax* and *Residence of Individuals and its effect on liability to United Kingdom Income Tax*. In the result, certain matters such as the changes effected to Schedule E by the Finance Act, 1956, the law it replaced; the position of casual

¹ Accounting and Auditing Practices, Bulletin No. 14: *Standards of Disclosure in Financial Statements* (The Canadian Institute of Chartered Accountants, Toronto).

² *Residence and Income from Abroad*. The Association of Certified and Corporate Accountants, 22 Bedford Square, London, WC1, 19 pp. 2s.

visitors, and the concessions given to those going and returning from abroad are dealt with in some detail. We would venture to suggest, however, that other questions, such as the residence of partnerships and of companies, the meaning of 'ordinary residence' and the effect of changes in residence status on liability under Case I and Case II, might with advantage have received rather greater attention.

Nevertheless, the booklet is to be welcomed for it will, without doubt, be found of much practical value.

Denials about the D-Mark

The German Government took the occasion of a full cabinet meeting recently to deny that there would be a revaluation of the D-Mark. It was pointed out by a spokesman that the German mark is closely related in terms of parity to the United States dollar. Under such circumstances, he went on, it is not correct to think of the German currency as under-valued in terms of the world's most powerful currency.

Not everyone will agree with this simple view of the international parity of the mark. There is ample evidence to show that it is under-valued in terms of most world currencies. The symptoms are the usual ones, namely, that the German balance of payments with a wide range of countries is moving increasingly in Germany's favour. This is now a fairly chronic tendency, and is a reasonable confirmation of the opinion held in Western European capitals that the D-mark is out of alignment.

Not too much credence need be given to assertions about the parity of the D-mark by the German Government just before a general election. It is necessary to underline, however, that a continuing under-valuation of the D-mark will seriously jeopardize the future of the European common market and the free trade area. Nothing could more readily ensure the 'Balkanization' of Western Europe (from which the members of O.E.E.C. are gradually emerging) than chronic under-valuation of the D-mark accompanied by a contrasting over-valuation of the French franc. These are the long-term issues which are at stake.

Canada on Commonwealth Trade

Initiative from Canada on the future of Commonwealth trade is refreshing. The Canadian Government has now circulated to all Commonwealth Governments a proposed agenda for a Commonwealth trade meeting of Finance Ministers in Ottawa on September 27th. The document is significant for its realistic approach to Commonwealth trade problems. A noticeable absentee from the proposed agenda is the renewal of the 1932 Ottawa Imperial Preference system. The new Canadian Government has clearly decided to discipline its known likings for closer trade connections with the Commonwealth within the form of current economic problems. The three main items proposed are all substantial issues.

The first of these is economic assistance to new

Commonwealth members which will be of outstanding interest to Ghana, Malaya and, in due course, to the British West Indian Federation. The second concerns the European free trade area where the immediate problems are particularly urgent for the United Kingdom in its endeavours to marry what is left of Imperial preference (both in spirit and in its letter) with the known and somewhat uncompromising views of Western European countries about the inclusion of agriculture in the free trade area scheme. The third important item is the disposal of commodity surpluses. There is a wide, and to some extent, conflicting interest on this subject within the Commonwealth. Canada and Australia are interested in wheat surpluses, New Zealand in dairy produce surpluses and Asia in rice. This last matter has not been the subject of a top-level Commonwealth conference before in the sense that no bold organized attempt has been made to marry off surpluses against one another nor have alternative methods of financing their liquidation been discussed. The Canadian Government has thus injected a refreshing element into the proposals for the forthcoming conference.

Tramp Shipping Laid Up

The continued fall in tramp freight rates is now resulting in the laying-up of a substantial volume of tramp shipping. It was announced recently that London-controlled Greek shipping companies have laid-up about ten Liberty vessels in Greece and further withdrawals of Liberty ships are expected by both Greek and United States owners. According to the Chamber of Shipping statistics, the single voyage tramp rate fell during July by eight points or 7.3 per cent to 101.9. This is the lowest level since October 1954, but in the intervening period costs have risen considerably: during the current year liner rates have been raised by 10 to 15 per cent and it is thought that this has been barely sufficient to cover cost increases during 1956.

The main reason for the decline in tramp rates has been the poor demand from Europe for American coal and grain, while in addition, the foreign exchange difficulties of a number of countries have held down the volume of world trade. Present prospects for the 1957 European harvest are good, unless the weather deteriorates seriously, and no large increase is expected in the immediate future in the European demand for coal. The next few weeks may therefore see a further increase in the tonnage of Liberty ships laid-up. If the withdrawal of these ships becomes general it will have a considerable influence on the situation as a whole, since they are estimated to account for as much as 50 per cent of the world tramp fleet.

United Kingdom tramp owners are reported to have been less affected by the fall in rates than their foreign competitors since they have tended to hire the majority of their ships on long-term contracts. Moreover, while this country is a net exporter of line services, she is a net importer of tramp tonnage.

Current Law

Action Against Foreign Successor Company

The defendant in *Metliss v. National Bank of Greece and Athens, S.A.* ([1957] 2 All E.R. 1) was an amalgamated Greek company which by Greek law was the universal successor both to a Greek company which had no assets in England and to another Greek company which had English assets. The company which had no English assets had guaranteed the interest (which was in arrear) on Greek bonds payable in England and subjected by Greek law to a moratorium. In an action in which a bondholder sued for arrears of interest the Court of Appeal held that the universal succession of one foreign corporate body to another under the law of the country of their incorporation must be recognized, but that the defendant was not protected against a debt due under the guarantee, since the proper law of the contract was English and English law did not recognize a moratorium of the Greek Government in relation to an English debt. Accordingly, the bondholder was entitled to recover six years' arrears of interest against the defendant. Parker, L.J., in the course of his judgment pointed out that English law had in effect adopted the concept of universal succession in Section 208 of the Companies Act, 1948, which provides that on an amalgamation of two companies, with the sanction of the Court, the property of the amalgamating companies shall be transferred to and vest in a new company and that the liabilities of the amalgamating companies shall be transferred to and become the liabilities of that company.

Mortgagee's Right to Possession

In *Fourmaids Ltd v. Dudley Marshall (Properties) Ltd* ([1957] 2 All E.R. 35), Harman, J., pointed out that the right of a legal mortgagee to possession does not depend upon some kind of default on the part of the mortgagor but arises from the fact that he has a legal term of years in the property, and it follows that he loses his right to possession only if there is a provision expressed or implied in the contract with the mortgagor that he will not exercise the right. In that case the defendant company, the mortgagor, demised to the plaintiff company, the mortgagee, the land charged for the residue of a term of years less the last three days, subject to cesser on redemption, and it was provided by the charge that if the mortgagor should pay each instalment of interest within seven days after the day on which it became due and should comply with all the mortgagor's obligations thereunder, the principal moneys would not be called in before December 31st, 1958. The mortgagee claimed possession because the mortgagor failed to pay one of the instalments punctually and then, having been required by the mortgagee to pay forthwith the principal sum, together with all interest due, failed to do so. At the date of the hearing of the summons there was no

interest in arrear, but, the mortgagee not having contracted out of its right to possession, the learned judge held that it was entitled to the order which it sought.

'Permanent and Pensionable' Employment

As Lord Keith of Avonholm said in his speech, *McClelland v. Northern Ireland General Health Services Board* ([1957] 2 All E.R. 129),

'... raises a question of general importance which may affect not only persons in the employment of the respondent Board in a like case with the appellant, but may well have repercussions on the powers of public bodies or authorities which do not rank as branches of the Civil Service to terminate the employment of their servants.'

The post to which the appellant was appointed was expressed to be 'permanent and pensionable' and the terms of service included provision for dismissal for gross misconduct or inefficiency, and also for failure to take the oath of allegiance or to honour it. While it was the view of the House of Lords that if the permanency of the appellant's employment had rested only on her employment being stated to be 'permanent and pensionable', that employment would have been of the nature of a general hiring and, as such, terminable by reasonable notice, their lordships, by a majority, allowed the appeal of the appellant from the decision of the Court of Appeal for Northern Ireland and held that the termination of the appellant's employment by the respondent Board on the ground of redundancy was invalid. Their lordship's decision turned, of course, on the construction of the particular contract of service, wherein the express terms relating to dismissal left no room for any implied right on the part of the respondent to terminate the contract on the ground of redundancy. The case shows, however, what care must be taken by an employer in drafting a contract of service.

Gifts to 'Heirs and Successors'

The testator in *Re Kilvert, Midland Bank Executor and Trustee Co Ltd v. Kilvert and Others* ([1957] 2 All E.R. 196) bequeathed certain chattels to his wife for her life and provided that they

'be returned to my brothers and sisters or their heirs and successors at her death.'

He gave his residuary estate

'to be equally divided between my brothers [E.] and [W.] and my sister [S.] or their heirs and successors after all debts, funeral expenses and duties are paid.'

The residue comprised both realty and personality. W. predeceased the testator leaving a wife, son and daughter. The question arose as to who was entitled to take under the words 'heirs and successors' and in what shares or proportions the persons so entitled

took. Roxburgh, J., held that the realty and personalty should be treated as one fund for the purpose of distribution and that 'heirs and successors' should be construed as referring to the persons entitled to that realty and personalty under the law of intestate succession applicable at the date when the testator died, in 1954. His lordship, applying *Re Ganloser's Will Trusts, Chartered Bank of India, Australia and China v. Chillingworth* ([1952] Ch. 30) (where the Court of Appeal considered the word 'relations'), held that the words 'heirs and successors' was not

such a reference to the Statutes of Distribution as would oust the general rule that the members of a class take as joint tenants: accordingly, in the case of both the gifts in the testator's will the property was to be divided into equal one-third shares between E. and S. and a class comprising the persons who at W.'s death were entitled to succeed to his property under the law of intestate succession applicable at the date of the testator's death, this class taking as joint tenants the share which W. would have taken had he survived the testator.

Finance and Commerce

Business in the stock-markets remains at a low ebb. The gilt-edged market is faced with the prospect of a continuing high level of interest rates and industrial equities with the prospect of higher costs eating into industrial profit margins. Oil shares have attracted speculative attention.

Canadian and English

Canadian and English Stores Ltd, whose accounts we reprint this week, has been in the news recently because of the very heavy loss which the company reports for the year to January 31st, 1957. The company's activity is mainly in hire-purchase, and in common with other concerns in that field the business trend has been downward. But the point with Canadian and English was the extent of the reversal shown in the preliminary profit statement before the accounts were issued.

Lord Milner, the chairman, says in his statement with the accounts that the whole of the loss has arisen from the operations of the principal English subsidiary whose main business has been the selling of furniture, radio and television sets on hire-purchase to people in the lower income groups. With the increased rates of deposit required – 20 per cent on furniture and 50 per cent on radio and television – there was an even more serious fall in sales than was expected. The position, he says, was made more difficult by the fact that the subsidiary's main trade was not in general merchandise, but was restricted to a particular type of goods and to the class of customer particularly affected by the Government restrictions.

Stock Position

Furthermore, Lord Milner continues, the subsidiary was also committed to buying or leasing, and subsequently opening, a large number of additional branches which would have produced increased sales and profits. But being new branches – staffed, stocked and opened at considerable expense and with no established trading connections, and being very seriously handicapped by the Government restrictions – they suffered substantial losses.

Following the drop in sales of furniture, radio and television, stocks were too high in relation to turnover and were further increased by goods repossessed from customers. The strictest control has been maintained over further purchases but stocks remain high at accounting date. To provide for any losses on sales of surplus or obsolete stock in the current year, a reserve of £155,000 has been made for stock depreciation in the subsidiary's accounts, and although this increases the loss in the accounts under review, it is hoped, says Lord Milner, thereby to prevent losses arising on the disposal of the stock in the current year from adversely affecting current year's results.

The scope of the business is now being widened by the establishment of a completely new short-term credit drapery and domestic goods department.

It might be suggested that in view of the company's separate and distinct spheres of operation in this country and in Canada, that separate views of the results obtained in England and in Canada should be given.

Capital Structure

The capital structure shown in the accounts has been brought into existence by the cutting off of a portion of the basic equity for sale at substantial premium to the public during the last four years as a form of prior charge. Thus, in November 1953, the £ million of capital in £1 ordinary was reconstituted as 2½ million 4s 'A', which were offered for sale at 7s 3d, and 2½ million 4s 'B' which remained privately held.

In March 1954, the 'A' were converted into 25 per cent non-cumulative 4s preference and the 'B' into 1½ million each of 4s preferred ordinary and deferred ordinary, the preferred being offered for sale at 22s. In September 1954, the deferred were turned into 2½ million each of 1s 'A' and of 1s deferred ordinary, the ordinary being offered for sale at 17s 6d. The deferred ordinary are still privately held.

For dividends, the preference and preferred ordinary rank in that order for a non-cumulative 25 per cent and 60 per cent, any balance of profits to be distributed going as to one-fifth to preferred.

ordinary and four-fifths in the following order of priority: 250 per cent non-cumulative on the ordinary, 250 per cent on the deferred, and the balance after that half and half between them.

Such a complicated capital structure should be set out in the accounts, for how can anyone understand the company's position without knowledge of the standing of the various classes of capital?

Tax Delays

Mr H. C. Drayton blames the complications of income tax and the paper work involved for companies and their auditors for delay in presenting accounts.

The point arose at the annual meeting of Second Consolidated Trust, an investment company with a £2½ million portfolio. The year's revenue was below expectations and investigation showed that three companies in which they had large holdings had not held their meetings until after the end of the company's year (June 15th) and their dividends, therefore, were not received in time for inclusion in the year's income. The financial years of the three companies ended last December.

Mr Drayton looked back to 'the bad old days' when he first came to the City as an office boy. They had no comptometers or artificial aids to book-keeping then. But if the company's year, especially a trust company, ended on December 31st, they had the accounts out by January 5th.

Today, he said, with all the aids, they were lucky to get them out by the middle of February, and in spite of the 'electronic brains', they didn't seem to be much more efficient today than when it was all done by hand.

Money Market

A further rise in the Treasury bill rate was forced on August 30th when the market syndicate's bid was cut to £98 19s 5d. The average rate was £4 2s 5.03d per cent. Applications for the £240 million of bills offered and allotted totalled £359,275,000. This week's offer is £250 million.

CANADIAN AND ENGLISH STORES LIMITED AND SUBSIDIARY COMPANIES

[illegible]

CANADIAN AND ENGLISH STORES LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at 31st January, 1957

[illegible]

CANADIAN AND ENGLISH STORES LIMITED

Balance Sheet as at 31st January, 1957

[illegible]

CANADIAN AND ENGLISH STORES LIMITED
NOTES RE ACCOUNTS FOR THE YEAR ENDED 31st JANUARY, 1957

- | | £ |
|--|-------------------|
| (a) Movement of Capital Reserves | |
| Exchange Fluctuation Account at 31.1.56 | 25,672 |
| Difference on Exchange due to change in rate from £2.8 at 31.1.56 to £2.68 at 31.1.57 and other exchange fluctuations | 41,282 |
| Balance at 31.1.57 | £69,954 |
| Capital Redemption Reserve at 31.1.56 | 35,768 |
| Increase in respect of further Preferred Shares redeemed and cancelled by the Canadian Subsidiary | 14,248 |
| Increase due to change in rate of exchange | 2,353 |
| | <u>£52,369</u> |
| Capital Reserve | |
| Cancellation of 5% Unsecured Loan Stock | 1,000,000 |
| Surplus on Sale of Freehold property of a subsidiary | 48,786 |
| | <u>£1,048,786</u> |
| (b) The Assets and Liabilities of the Canadian Subsidiary Companies have been converted into Sterling at \$2.68 to the £1, the rate ruling at 31st January, 1957. | |
| (c) Depreciation of Freehold and Long Leasehold Properties (£130,534) refers to the Canadian Subsidiary Companies only, no depreciation having been provided in respect of similar properties of the English Companies. | |
| (d) The Assessment on the profits of a subsidiary company for the year ended 31st January, 1956, has not yet been agreed with the Inland Revenue Authorities. Provision has been made in the Accounts for all taxation on the profits up to 31st January, 1957, after adjusting for Double Taxation Relief. In respect of the profits of a subsidiary company a claim will be submitted for repayment of tax assessed and paid for 1956-57. Any remittances received from the Surplus retained in the Canadian Subsidiary will be subject to United Kingdom Taxation, and Double Taxation Relief will be applicable. The provision against Uncompleted Hire Purchase Accounts has been arrived at on the same basis as that applied at 31st January, 1956, except that the percentage deduction for Doubtful Accounts has been further increased. The £1,020,791 includes provision for Doubtful Accounts amounting to £466,968. | |
| (e) Capital Commitments on properties at 31.1.57 amounted to approximately £30,000. | |
| (f) Contingent liabilities for fees and commissions at 31.1.57 amounted to approximately £10,000. | |
| (g) Guarantees have been given by the Parent Company in respect of bank overdrafts of Subsidiary Companies, which at 31st January, 1957, amounted to £183,155. The Parent Company has endorsed Bills of Exchange of Subsidiary Companies which at 31st January, 1957, amounted to approximately £160,000. | |
| (h) Losses back to Subsidiary Companies arising from the sale of freehold properties during the year have also been guaranteed by the Parent Company. | |
| (i) The rights of the £2,000,000 are:—
As to the first £500,000 interest at 5% per annum from 26th March, 1957, on the reducing balance. The principal is repayable by four instalments of £125,000 every five years commencing 26th March, 1962.
The remaining £1,500,000 interest at 5% per annum on the reducing balance from 26th March, 1962. The principal is repayable at £60,000 per annum, the first payment being due on 26th March, 1968. | |
| (j) The Stock Depreciation Reserve of £155,000 has been created to meet losses which may arise from the sale of surplus or obsolete stock. | |

SEVENTH INTERNATIONAL CONGRESS OF ACCOUNTANTS

Members attending from the United Kingdom

Approximately 300 members of the United Kingdom accountancy bodies will be participating in the Seventh International Congress of Accountants which is being held in Amsterdam from Monday to Friday of next week. We give below a list of the names of the official delegates of each body, together with the names of the other members who will be attending.

The Institute of Chartered Accountants of Scotland

Official Delegates

J. T. Dowling, Glasgow. *President.*
R. Adams, London.
Prof. R. Browning, Glasgow.
W. I. French, Glasgow.
C. I. R. Hutton, London.
P. M. Jackson, Perth.
R. I. Marshall, Edinburgh.
A. N. E. McHaffie, London.
J. C. Stewart, Glasgow.
J. Whitton, Glasgow.
E. H. V. McDougall, Edinburgh.
Secretary of the Institute.

Participating Members

R. Archbold, Edinburgh.
J. G. Brown, Kilmarnock.
N. S. Brown, Glasgow.
D. I. Cameron, Edinburgh.
G. F. Crane, London.
W. F. Eva, Pinner.
L. Fielder, London.
D. Flint, Glasgow.
L. T. Hodgins, London.
D. S. Houghton, Dar-es-Salaam.
J. R. Leitch, London.

H. MacTaggart, Edinburgh.
T. F. Millar, London.
R. G. Nicholson, London.
W. R. S. Ritchie, London.
R. Sproull, London.
A. J. Stott, Bethlehem, Pa.
W. C. Taylor, Edinburgh.
R. Tester, Oxford.
T. H. Thomson, Edinburgh.
J. R. M. Valentine, Chalfont, St Giles.

The Institute of Chartered Accountants in England and Wales

Official Delegates

W. H. Lawson, London. *President.*
W. L. Barrows, Birmingham.
T. A. H. Baynes, Birmingham.
H. A. Benson, London.
P. F. Carpenter, London.
W. S. Carrington, London.
D. A. Clarke, London.
W. G. Densem, London.
A. S. H. Dicker, Norwich.
P. F. Granger, Nottingham.
D. V. House, London.
Sir Harold Howitt, London.
P. D. Irons, Ryde, I.O.W.
R. B. Leech, Coventry.
R. McNeil, Hove.
G. P. Morgan-Jones, Eastbourne.
S. J. Pears, London.
P. V. Roberts, Bristol.
L. W. Robson, London.
Sir Thomas B. Robson, London.
G. F. Saunders, Liverpool.
G. D. Shepherd, Cardiff.
B. Smallpeice, London.
C. M. Strachan, Hull.
A. D. Walker, Liverpool.
A. S. MacIver. *Secretary of the Institute.*
F. M. Wilkinson. *An Assistant Secretary of the Institute.*
Mrs W. Amor. *Secretariat of the Institute.*

Participating Members

H. A. Adams, London.
F. J. Allsop, Wolverhampton.
H. P. Allsop, Birmingham.
P. L. Armstrong, London.

P. W. Barrows, Birmingham.
A. J. Barsham, London.
R. D. R. Bateman, Burton-on-Trent.
R. Bedford, York.
C. J. M. Bennett, London.
K. B. Biddle, Bournemouth.
J. C. Blumer, Purley.
J. F. Body, Sheffield.
T. J. Bond, London.
C. Bostock, London.
A. Bottomley, London.
J. C. Bracher, Gloucester.
A. J. Bray, London.
Miss M. R. Burgess, Radlett.
W. A. Burn, London.
Miss V. M. Burton, Bedford.
H. K. Campbell, Bristol.
W. E. Carnelley, London.
E. J. Carroll, Dublin.
H. P. Cemach, London.
E. H. Channon, Woodford Green.
G. A. Cherry, London.
A. G. Church, London.
J. B. L. Clark, Northwood.
Miss S. J. Clark, London.
D. D. Cole, Birmingham.
G. M. Cooper, Glenfield.
R. W. Covington, London.
J. S. Crawshaw, Enugu, Nigeria.
G. E. Cusworth, Frankfurt-am-Main.
L. C. David, Paris.
H. A. Decker, London.
I. G. De Mesquita, London.
K. J. Dessauer, London.
R. B. Dixon, Birmingham.
P. H. Dobson, Leeds.
F. Downing, Sheffield.
A. M. Drysdale, Buenos Aires.

R. L. Dunlop, London.
J. B. Dunn, Altrincham.
J. C. Durnin, London.
W. P. Earley, The Hague.
D. T. Eaton, Waltham Cross.
S. J. P. Edgcumbe, Plymouth.
H. Edwards, London.
A. R. English, Woodford Green.
D. U. Foster, Sheffield.
Miss M. Fox, London.
N. Freeborn, Leeds.
J. McD. Freeman, Newbury.
S. Freeman, London.
M. J. Gilbert, Beckenham.
R. Gold, London.
G. G. Goult, Ipswich.
R. Grant, Baghdad.
J. F. Greaves, Brussels.
J. D. Green, London.
C. W. Griffiths, London.
F. C. Griffiths, Cheltenham.
V. C. Haines, London.
H. E. Halliday, Newport.
P. F. Hawkins, London.
L. Hayden, London.
H. R. Hayes, Manchester.
R. P. Henry, Karachi.
G. W. Heywood, Exeter.
J. M. Hill, London.
F. Hiscocks, Liverpool.
H. Hodgson, London.
O. W. Horne, Portsmouth.
W. T. Horsfall, Liverpool.
R. C. Johnston, Birkenhead.
S. Kitchen, Birmingham.
J. V. LeMaistre, London.
A. H. Leppard, London.
E. N. Macdonald, Liverpool.

S. Makin, Amersham.
C. J. Maples, London.
N. J. Mathias, Jamshedpur, India.
R. P. Matthews, London.
H. McDonald, Birmingham.
D. A. McKelvey, Bolton.
E. D. McMillan, London.
W. R. Middleton, London.
Miss D. H. Miller, London.
L. V. Mills, London.
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D. Morse, London.
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The London Chapter of The Institute of Internal Auditors will be represented by Mr J. O. Davies, Mr R. A. Reid, and Mr J. R. Robinson. Mr Arthur E. Webb, Editor of *The Accountant*, will also be present.

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

'The Cause and Cure of Inflation'

SIR, - In reply to Mr Russ's letter in your August 24th issue, I cannot lay claim to any detailed knowledge of standard costs and budgetary control, but I do not doubt that they have their part to play in arresting the rise in prices and costs which are the feature of inflation. But whether an inflationary environment is the one most likely to encourage the pursuit of efficiency, is the problem that worries me, and worries many other critics of inflation.

Inflation is a problem of the relationship of the supply of money to the supply of goods. It will not be removed by increasing the supply of goods, if the supply of money is increased to match. The Americans are great believers in productivity but they are also believers in getting the biggest possible share of the product. As the result, they too are battling with inflation.

To ignore the human aspect of inflation is to ignore the problem almost in its entirety. People invariably want more than they are worth. When economic conditions encourage them to seek it as they do now and the Government and the Bank of England aid and abet them by imposing excessive demands upon the economy and by seeing that enough money is created to finance the demands, prices go up and up irrespective of rising productivity and what they gain on the swings of wages profits and dividends, they lose on the roundabouts of prices. In the end, countries practising inflation are faced with the alternatives of financial collapse, more and more Government controls or the return to a more competitive economy - not so competitive necessarily that widespread unemployment re-emerges but sufficiently competitive to encourage men to give of their best at their work.

I am for the competitive economy and for Government intervention of a general character, through the Budget and through the Bank of England, to see that it remains competitive and I am for it, largely because I believe that it fits in best with human nature as it is.

Yours faithfully,

Cuckfield, Sussex. W. H. B. FAIRWEATHER.

'Decimalizing the Coinage'

SIR, - I was very interested to read your leader on decimalizing the coinage (August 24th issue). I would, however, comment on one point and that is your question 'What has become of the groat and the ell?'

The answer to the question as far as the ell is concerned, is that it is in day-to-day use as the standard of measurement of woollen piece goods in the Scottish tweed industry. The measure is used right through the mills until final dispatch, when the standard becomes the yard.

Yours faithfully,

I. McK. JACKSON,

Secretary and Director,

EDWARD GARDINER & SONS LTD.

Selkirk, Scotland.

Accounting Ratios

SIR, - When considering accounts and analysing results for the presentation of data to management, there are many standard comparisons which can usefully be calculated. These include, *inter alia*, the following ratios:

- Ratio of stock values to cost of sales.
- Ratio of stock values to capital employed.
- Ratio of fixed assets to current assets.
- Ratio of fixed assets to capital employed.
- Ratio of current assets to capital employed.
- Ratio of current assets to current liabilities.
- Ratio of liquid assets to current liabilities.
- Ratio of fixed overheads to capital employed.
- Ratio of selling expenses to capital employed.

Such figures, however, will tend to vary from industry to industry, and they are of particular interest when they can be compared with averages for the same type of trade.

I should appreciate any information which your readers may have on the existence of standard figures, with particular reference to the food manufacturing and distributing industry.

Yours faithfully,

A. C. A.

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NATIONAL INCOME AND EXPENDITURE

THE compilation of the annual Blue Book on National Income and Expenditure can now be regarded as a grand inquisition into the nation's economic health. And as the years go by this study becomes ever more valuable, partly because its scope increases as more and more statistical material becomes available, and also because comparisons over a longer period become possible. The 1957 issue,¹ which appeared this week, provides annual comparisons over a very wide field of economic activities from 1956 back to 1948, and in a few but important instances, gives estimates for 1946 and 1938 also. It is manifestly impossible to review the whole of the sixty tables contained in the Blue Book; instead, a factual summary is given of the tables which relate to a small number of the more important aspects likely to be of interest to accountants. These are the shares of the gross national product obtained by the various factors; the type of expenditure which goes to make up this gross national product; the contribution of industry, trade, communications, and the like, to it, together with the financing of investment and the relation of net to gross investment.

Gross national product in 1956 is now estimated at £18,117 million. This is three and a half times the 1938 figure of £5,175 million, and 57 per cent greater than that for 1950. In volume terms, the 1956 index of gross domestic product, i.e. gross national product less net income from abroad, is given as 127.8 (based on 1948=100). The 1956 figure is slightly greater than that for 1955 at 127.3. The average annual increase over the eight years 1948 to 1956 has been at the rate of 3 per cent per annum. Shares obtained by the various factors can only be estimated because of the difficulty in allocating the value of 'stock appreciation' to the various sources of profit. But it is reasonably safe to conclude that in 1938 income from employment made up 74 per cent of the gross domestic product. By 1950 this percentage had risen to 80, but it had fallen back slightly to 76 in 1956. Income from self-employment, which had been 13 per cent of gross domestic product in 1938 and in 1950, had by 1956, fallen to 10 per cent. Gross trading profits of companies absorbed about 15 per cent of gross domestic product in 1938 and much the same proportion in 1950. Last year, the percentage was between 16 and 17. In 1938 9½ per cent of gross domestic product was paid out as rent. In 1950 and in 1956 this percentage had fallen to 4½ per cent. The trading surpluses of public corporations and public enterprises represented

¹ H.M.S.O. 6s net.

rather less than 2 per cent of gross domestic product in 1938; the percentage is now about 2½.

In order to estimate the relative importance of consumers' expenditure, public authorities' current expenditure on goods and services, and gross fixed capital formation, total domestic expenditure at market prices has to be considered. Consumers' expenditure represents a declining proportion of this total; it was 75 per cent in 1938, 72 per cent in 1950, and only 66 per cent last year. Both gross fixed capital formation and public authorities' current expenditure take up a higher percentage of total expenditure than in pre-war days. Capital formation represented 13 per cent of this total in 1938, 16 per cent in 1950, and 17 per cent last year. During the same years, public authorities' current expenditure was 11 per cent, 13 per cent, and 15½ per cent respectively. The physical increase in stocks and work in progress has varied from plus 1 to minus 1 per cent over these dates.

What proportion of gross national product is derived from industry, agriculture, transport distribution and services, public services and the like? This is clearly brought out in the Blue Book table 'Gross national product by industry', for each year from 1948 to 1956. In the first of these two years, 'industry' – made up of manufacturing industry, mining and quarrying, building and contracting and the production of gas, water and electricity – provided 48 per cent of the gross national product. By 1956, this proportion had risen to nearly 51 per cent. Agriculture provided nearly 6½ per cent in 1948, but this percentage had fallen to 4½ in 1956. Transport, distribution, communication and services are responsible for about one-third of the gross national product; to be precise, 34 per cent in 1948 and 33 per cent in 1956. Public administration, defence, public health and educational services provided one-tenth of the gross national product in both years and the ownership of dwellings, 3 per cent. The decline in domestic service ever since 1948 is noticeable; it yielded £113 million in 1948 but only £100 million last year.

Total gross investment in money terms more than doubled between 1948 and 1956. In the former year it amounted to £1,744 million and in the latter, £3,622 million. Most of this investment represents gross fixed capital at home – more than 80 per cent in each of the two years. The value of stocks and work in progress is a most

volatile element in total investment, it has varied from minus £210 million to plus £575 million in successive years. There remains, net overseas investment plus net acquisition of fixed assets. This has also varied, largely in sympathy with the surplus or deficit on the balance of payments. Between 1948 and 1956, Britain invested overseas an average of £150 million a year – a not uncreditable performance. The methods by which the total investment has been financed have changed greatly since 1948. In that year, personal savings were negative – £69 million in fact. They were also negative in each of the succeeding three years. From 1952 onwards, personal savings have provided a significant part of the funds necessary to pay for total national investment. In 1956, no less than 37½ per cent of total gross investment was financed from personal savings. With the increase in personal savings the need for huge Budget surpluses has declined. In 1948, the surpluses, on revenue account, made by the Government and local authorities, financed nearly half the country's investment – 49·2 per cent in fact. Last year, less than 21 per cent of investment was financed in this way. With the growth in personal savings, the need for company savings has also lessened. Although undistributed profits, together with tax and dividend reserves, were higher in 1956 than in any previous year, they amounted to less than 44 per cent of gross fixed investment compared with 56 per cent in 1948.

Net fixed investment in 1956 is estimated at £1,487 million, rather less than half the figure for gross investment, and 9 per cent of the net national income. This is the highest percentage ever attained, and compares with 6·2 per cent in 1938 and 6·6 per cent in 1950. The relationship of net fixed investment to gross fixed investment gives a pointer to the changing average age of the country's assets. In 1938 depreciation, on conventions now used by the Central Statistical Office, equalled 54·7 per cent of gross fixed investment in that year. In 1948 depreciation was a considerably higher proportion of gross investment; it was, in fact, 62·2 per cent. Since then, depreciation has been a steadily diminishing proportion of gross investment. In 1955 it was 54·3, and last year it had fallen to 52·6 per cent. Thus, between 1938 and 1948 the average age of the country's assets was rising; since 1948 it has been falling and is now lower than in 1938.

GROSS RELEVANT DISTRIBUTIONS THE *POLLOCK & PEEL* DECISION

by T. J. SOPHIAN

THAT every payment which constitutes a 'distribution' is not necessarily a 'gross relevant distribution' for the purpose of profits tax, is well illustrated by *C.I.R. v. Pollock & Peel Ltd* ([1957] 2 All E.R. 483).

This case was principally concerned with the impact of Section 31 of the Finance Act, 1951, on Sections 35 and 36 of the Finance Act, 1947, the question being whether the payment out of a cash sum to shareholders on the liquidation of a company, which had previously made a bonus issue of fully-paid shares, constituted a payment in reduction of capital for the purposes of Section 31 of the Finance Act, 1951, and accordingly a notional 'distribution' of a distributable sum; and whether on that assumption the payment constituted a 'gross relevant distribution'.

For a proper understanding of the *Pollock & Peel* decision, some reference must be made to 'distributions', 'gross relevant distributions' and 'non-distribution relief'.

Non-distribution Relief

Assuming that the trade or business is one within the scope of the profits tax, the tax will not be charged on the whole of the profits, which incidentally are determinable according to income tax principles but not entirely so. In general, if the profits, including 'franked investment income' (such as income from investments or other property) do not exceed £2,000, the profits will be deemed to be nil (Section 33 (1) of the Finance Act, 1947). (For a definition of 'franked investment income' one must turn to paragraph 7 of the Fourth Schedule of the Finance Act, 1937.)

Where the 'profits', in this technical sense, are between £2,000 and £12,000, they are to be reduced for the purpose of the charge to tax in the manner indicated by subsection (2) of Section 33 of the Finance Act, 1947, according to the calculations directed to be made. These calculations will vary according as there is, or is not, any 'franked investment income'.

The profits, however, will attract a higher rate of tax if they are 'distributed', and they will earn substantial relief—i.e. non-distribution relief—if they are not distributed to the 'proprietors', who will, in general, be the members of the company.

Under Section 29 (1) of the Finance Act, 1956,

the rate of profits tax on distributed profits was increased from 27½ to 30 per cent, while the rate of relief on undistributed profits was increased from 25 to 27 per cent. Thus, as regards undistributed profits, the rate of the tax works out at the difference between 30 and 27 per cent, i.e. 3 per cent.

From a company's point of view, therefore, the distribution of profits should be avoided as far as possible. The profits tax legislation, however, contains specific provisions intended to close up loopholes for the avoidance.

Distribution

Let us pass now to a consideration of the meaning of a 'distribution'. According to Section 36 of the Finance Act, 1947, a 'distribution' will be effected by:

- (a) a payment of a dividend or a cash bonus;
- (b) a distribution of assets;
- (c) (in cases where the directors have a controlling interest) the application of a sum by way of remuneration, loan, or otherwise for the benefit of any person.

But by the proviso to subsection (1) of Section 36 of the Finance Act, 1947, no sum applied in repayment of a loan, or the reduction of the share capital of the persons carrying on the trade or business, will constitute a 'distribution'.

This proviso is one of the factors which have a bearing on the *Pollock & Peel* decision. Incidentally, although it is not material in this case, the proviso has been amended by subsection (1) of Section 31 of the Finance Act, 1956, which provides that any sum applied on or after April 18th, 1956, in reducing a company's share capital is not to be exempted from being a 'distribution' (by virtue of the above proviso), to the extent to which such sum exceeds the amount of the reduction made in the total nominal amount of a company's paid-up share capital. This amendment was introduced in consequence of the decision in *Universal Grinding Wheel Co Ltd* (34 A.T.C. 123).

Reference must also be made to subsection (4) of Section 36 of the Finance Act, 1947, which deals with the case where there is an amalgamation or reconstruction, under which the trade or business is transferred from one company to another, in consideration of shares in the latter

company. In such circumstances, if the two companies jointly so elect within a month of the transfer or such longer time as the Commissioners allow, any distribution of the shares to any person in the winding up of the transferor company will not be a 'distribution'. In this case, however, there will be an adjustment as regards the distribution charge to be made in relation to the second company (see subsection (4) (ii) of Section 36 of the Finance Act, 1947).

Effect of Capitalization of Profits

Where there has been a capitalization of profits, as there had been in the *Pollock & Peel* case, a special set of provisions contained in Section 31 of the Finance Act, 1951, comes into operation.

Although these provisions are expressed as modifying Section 35 of the 1947 Act, which deals with 'gross relevant distributions', they have the effect of modifying the proviso to Section 36 (1) of the 1947 Act, which excludes sums applied in repaying loans or reducing share capital from being 'distributions'.

Turning now to Section 31 of the 1951 Act, it will be observed that subsection (1) deals with the case where there are the two operations of capitalization followed by reduction of capital, and that subsection (2) deals with the same two operations, but in the opposite sequence. In such circumstances there will be deemed to be a 'distribution' in either case.

Where capitalization precedes reduction of capital, the notional distribution will be of the lower of (a) the sum applied in reduction of the capital; and (b) the total amounts of the distributable sums capitalized, the material date being the date of the capital reduction.

Where there is the reverse sequence of reduction of capital preceding capitalization, the notional distribution will be of the lower of (a) the distributable sum capitalized; and (b) the total of the amounts applied in reduction of capital, the material date being the date of the capitalization.

Moreover, under subsection (5) of Section 31 of the Finance Act, 1951, reference to 'reduction of capital' will include reference to the repayment or return of share capital, and the repayment or return of loan capital, other than loan capital issued for full consideration paid in cash to the company or redeemable shares so issued.

Conflict between Section 35, 1947 Act, and Section 31, 1951 Act

One of the important issues in the *Pollock & Peel*

case, was as to the extent to which Section 31 of the 1951 Act modifies or overrides paragraph (c) of Section 35 of the 1947 Act, which defines what is to constitute a 'gross relevant distribution'. Shortly, the point in relation to Section 31 was whether a payment in reduction of share capital in the circumstances outlined in the section was not only a 'distribution' but was also *per se* a 'gross relevant distribution', quite independently of Section 35 (1) (c) of the 1947 Act, or whether, on the other hand, it was still qualified by, and subject to, paragraph (c), with the result that the payment – even though a 'distribution' – could not constitute a 'gross relevant distribution' unless it qualified as such under the express terms of Section 35 (1) (c).

Gross Relevant Distribution

Under Section 35 (1) of the Finance Act, 1947, gross relevant distributions will include:

- (a) dividends declared not later than six months after the end of the chargeable accounting period which are expressed to be paid in respect of that period or any part thereof;
- (b) distributions, other than such dividends, made in that period;
- (c) in the case of the last chargeable accounting period, so much of any distribution made after the end of that period (not being such a dividend) as is not a distribution of capital.

But a distribution under paragraph (c) will be treated as a distribution of capital to the extent to which it does not exceed the amount of the paid-up share capital, plus the aggregate of any cash premiums, for which shares have been issued by the company.

Suppose now that a notional distribution has been constituted under Section 31 of the Finance Act, 1951, by reason of a capitalization followed by a reduction of capital, is the sum applied in the reduction and paid out accordingly to the company's shareholders to be regarded as a 'gross relevant distribution' as well, even though it is within the limit of the amount of the paid-up share capital?

Any *excess* over such amounts of the paid-up share capital, would, of course, by virtue of the above proviso to Section 35 (1) (Finance Act, 1947), be notionally treated as a distribution of *income*, notwithstanding that it may be a distribution of capital in point of fact and received *as capital*, by the shareholders.

What the Court of Appeal decided in *Pollock & Peel* was that if the distribution was, in fact, *of capital* – in the sense that it was received by

the shareholders as capital – then notwithstanding that it might be a ‘distribution’ within Section 31 of the 1951 Act, it still would not be a ‘gross relevant distribution’ within Section 35, because of paragraph (c) of Section 35 (1).

Paragraph (c) would apply equally whether the company is still a going concern or is in liquidation at the material time. As far as liquidation is concerned the appropriate expression to use – whenever the liquidator distributes any of the company's assets, including return of share capital – would be ‘distribution of assets’ and not ‘distribution of capital’. But the draftsman has steered a middle course, and adopted the neutral phrase ‘distribution of capital’, which would cover not only the case of a distribution made while the company was still a going concern, but also the case of a company in liquidation.

The draftsman's attention in the choice of the phrase was focused more on the character in which the payment reached the hands of the recipient. Looking at the matter from the point of view of the recipient, if the payment came into his hands as capital, then it was a ‘distribution of capital’ and accordingly subject to the limitation mentioned, it could not be treated as a distribution of income, and it would not be a ‘gross relevant distribution’ notwithstanding that the payment was a notional ‘distribution’ within Section 31 of the 1951 Act.

A further and subsidiary point raised was whether a payment out to shareholders in a liquidation (even though in a sense it might be a return of capital) could be regarded as a ‘repayment or return of share capital’ so as to constitute a ‘reduction of capital’ within the meaning of subsection (5) of Section 31.

The Court of Appeal doubted whether such a payment on a liquidation could be regarded as a ‘repayment or return of share capital’, where all the shares were of the same class, as was the case in *Pollock & Peel*. It might perhaps be otherwise, however, where shares are of different classes, and some classes of shares have rights entitling the shareholders merely to return of their capital.

The Material Facts in *Pollock & Peel*

One is now perhaps in a better position to examine the facts in *Pollock & Peel* which was a company carrying on an engineering business. The capital of the company was originally £2,500, consisting of 2,500 ordinary £1 shares, of which £2,004 had been issued. In November 1952, there were certain reserves standing to the credit of the company, and out of these reserves, £28,056 was applied in issuing to the two shareholders and

directors 28,056 ordinary £1 shares, thus increasing the capital of the company to £30,060.

In October 1953, the company went into voluntary liquidation and a few days after, its undertaking, except a sum of cash, was transferred to a new company in consideration of the shares in the new company, which were allotted to the shareholders. The company made a joint election under Section 36 (4) of the Finance Act, 1947, with the result that the distribution of the shares did not rank as a ‘distribution’. After the liquidation and cessation of the company's business, the liquidator paid out of this sum in hand, £15,030 in cash to the shareholders.

This sum was within the limit of the issued share capital of £30,060. The original issued share capital of £2,004 was not the proper figure to be taken for this purpose. As this payment in the course of the liquidation reached the hands of the shareholders as capital it came, in the opinion of the Court of Appeal, within paragraph (c) of Section 35 (1) of the 1947 Act, notwithstanding that it may have fallen within Section 31 (1) as a sum applied in ‘reducing capital’ (with the assistance of the definition of ‘reduction of capital’ in subsection (5) of Section 31 of the 1951 Act); though on this point the Court doubted whether the payment could have been described as a ‘repayment’ or ‘return of capital’, the shares being all of one class.

But assuming that these difficulties could be surmounted and that it could be said that the payment constituted a notional ‘distribution’ by virtue of Section 31 of the 1951 Act, there was still the hurdle of Section 35 (1) (c) of the 1947 Act to be negotiated. The payment was received by way of a distribution of assets in a winding-up, and it was received by the shareholders as capital. That being so, paragraph (c) of Section 35 (1) of the 1947 Act had sufficient force to repel, as it were, the impact of Section 31 of the 1951 Act. The latter could not override the former. Accordingly, the payment could not be a ‘gross relevant distribution’ and the sum of £15,030 could not be made the subject of a ‘distribution charge,’ as the Revenue sought.

Conclusion

The result of this decision, therefore, is that notwithstanding Section 31 of the Finance Act of 1951, a company can avoid the consequences of a distribution charge in respect of a cash payment made to its shareholders as the ultimate result of a capitalization, followed by a reconstruction and liquidation of the transferor company.

SEVENTH INTERNATIONAL CONGRESS OF ACCOUNTANTS—I

OPENING PROCEEDINGS IN AMSTERDAM

Accountants from over forty countries were present at the opening session of the International Congress in Amsterdam on Monday afternoon, when His Royal Highness Prince Bernhard of the Netherlands officially opened the proceedings in the Great Hall of the Concertgebouw. Also present were Dr G. M. G. Veldkamp, State Secretary of Economic Affairs; Dr M. J. Prinsen, Governor of the Queen for the Province of North Holland, and

Dr A. de Roos, Deputy Burgomaster of Amsterdam. More than 2,800 members and their ladies are attending the Congress and in the morning many attended either the church service in the Westerkerk, conducted by the Rev. J. H. Sillevius Smitt, President of the Dutch Bible Society and Chief Navy Chaplain, or High Mass in the St Nicholaaskerk, conducted by the Rev. J. Aarts, assisted by the Rev. Dr P. Dreesen, s.j., and the Rev. W. Switzar.

The President of the Congress

Mr J. Kraayenhof, the President of the Congress, was formally introduced to delegates at the opening session by Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., F.C.A., in his capacity as President of the previous Congress held in London in 1952. In a short speech Sir Harold said:

I have been invited formally to introduce the President of this Seventh International Congress of Accountants in that I was President of the Sixth International Congress in London in 1952. If, in this sense, I am being privileged to carry the torch, I can but wish I was still competent to bear it into this hall in true Olympic style.

The high standard of the accounting profession in Holland is well known throughout the world and this is confirmed by the fact that in the comparatively short history of these congresses this is the second which has been held in your country, the other one having been in 1926. I feel sure that this Congress will be as happy and as useful as was the previous one.

I have looked at the record of the proceedings of the 1926 Congress and it is clear how carefully the subjects for discussion were then chosen to cover the current problems. The same care has obviously been taken in selecting subjects for the present Congress. They include not only subjects related to our profession as such and the ever-widening scope of our responsibilities, but also problems arising from the urge of the modern age in which we live, including the impact of inflation on accountancy records.

In 1926 also, great care was taken for the entertainment and the social needs of your visitors. We have a saying in my country that 'All work and no play makes Jack a dull boy'. This is certainly true of accountants, and of ladies also, and we look forward with great enthusiasm to enjoying the traditional hospitality of your country so clearly in evidence in the programme that is before us.

It would be an impertinence for me to say any more at this stage; it is now my pleasure to vacate the chair and to ask Mr Kraayenhof to take over as President of the Congress. I wish you, sir, all success and happiness in your task.

Mr Kraayenhof, acknowledging Sir Harold's intro-



Mr J. Kraayenhof

duction, spoke of the pleasant remembrances brought back home by so many in 1952 from London, and expressed the hope that they might be continued through the present Congress. He then said:

Undoubtedly I am acting as the spokesman of all the participants of this Congress when in the first place I welcome His Royal Highness the Prince of the Netherlands and express our sincere thanks for his willingness to attend this opening session and to address the Congress. Your Royal Highness may be assured that we deem this to be a great favour and a new proof of your highly appreciated interest in the important events in our country, especially when such events are taking place on an international basis.

I am very pleased indeed to inform our guests from abroad at this moment that Her Majesty the Queen

has expressed the desire to meet a deputation of the delegates on Thursday afternoon at the Royal Palace in Soestdijk.

I also particularly welcome His Excellency Dr Veldkamp, State Secretary of Economic Affairs, whose

duties include matters relating to our profession, and who has agreed to say a word of welcome to the Congress on behalf of the Netherlands Government.

Mr Kraayenhof then invited His Royal Highness Prince Bernhard to open the Congress.

His Royal Highness Prince Bernhard of the Netherlands

Addressing the Congress, Prince Bernhard said:

In my life I have had and have many different functions to perform, but I want to tell you that I consider it a real privilege to be invited to open this Seventh International Congress of Accountants. It gives me particular pleasure to see that from professional circles all over the globe so many have responded to the invitation to meet here and exchange views, even though that meant travelling long distances to reach this capital of the Netherlands.

As you gather here for what I am sure will prove to be an important and valuable conference, you must certainly remember with appreciation how, after the Second World War, the professional organizations of the United Kingdom and Ireland in 1952 resumed in London the series of international gatherings in which you periodically take stock of your position and problems. And we in Holland, on our part, recall that in 1926, after the First World War, the Netherlands Institute of Accountants had a similar privilege and pleasure of contributing to the resumption of international contact here in Amsterdam.

The real significance of professional congresses like yours is, I feel primarily to be seen in the usefulness of open-minded discussion of the many problems which must face you, for surely the accountants won't be the world's *only example* of a body of hard-working responsible men and women *without* worries, problems or difficulties.

Mutual Understanding

However, a not less interesting, and perhaps even more far-reaching, objective can be attained by assemblies like this. It is unfortunately a fact that many and serious conflicts and disputes in the world arise from insufficient knowledge of, and lack of appreciation and respect for, the opinions of other people.

Even in these days we are all liable to adapt ourselves to a considerable extent to the ideas and habits of our national, professional and social surroundings, and very often only too readily use our own outlook on life as the criterion with which to judge or measure the views and behaviour of other people. But international congresses, which provide opportunities for a down-to-earth discussion of professional problems as well as real personal contact between representatives of many nations, can do much towards promoting a better mutual understanding. And this, in its turn, goes a long way towards respect for and appreciation of opinions and a way of life differing from our own.

You may perhaps think that a specialized congress of this kind may be able to make only a small contribution in this direction, but I know from my own experience of international gatherings, that you can even surprise yourselves by the measure of goodwill that you can produce. That is why I wish to congratulate you on coming here in such great numbers and, if I may use the phrase, in such great variety too.

Now, a well-prepared discussion of professional

problems in an international gathering is undoubtedly of great importance to the advancement of every profession and of the work done in many fields of business and Government service. It seems to me, however, that there is a particular reason why everything I have said applies especially to the profession of which so many distinguished members are together in this hall this afternoon.

I feel sure, that as accountants, not one of you will contradict me when I say that important decisions are very often based, wholly or partly, on the opinions expressed by accountants, either in their capacity of auditors or in that of advisers.

Those decisions are mostly related to economic and financial matters which, as we all know, dominate for a large part the relations between individuals and between the numerous smaller and larger communities of modern society.

It is for this reason that it is surely not an overstatement to say that accountants, in promoting fairness and honesty in all kinds of financial statements and presentations, make a valuable contribution to the founding of human relations on principles of truth and justice.

A Science and a Profession

A profession which in this way can do much for that improvement of human relations, which we so sorely need, must obviously itself give an example of international co-operation in the study of professional problems and of international understanding. That is the particular reason why I mentioned that—in my opinion—your profession is definitely on the right course with the organization of regular international congresses on such a world-wide scale.

Accountancy today may be regarded as a science as well as a profession. As with almost every other sphere of human activity, it becomes more complicated and more exacting every year. Gone forever are the days of which the American philosopher Thoreau wrote: 'Instead of a million, count half a dozen, and keep your accounts on your thumb-nail.' Of course, the world's back-room boys, those incredible inventors and scientists, are trying to help you with their clever mechanical brains and fantastic mathematical robots; but it may well be that even these aids to calculations are in many ways adding to, rather than subtracting from, your problems, if only because the very principles on which you work must always have a human element and must always manifest human characteristics.

It is only natural that this modern world, by its magnificent achievements in the technical field, displays a special interest in the material aspects of all walks of life. It is to be feared, however, that the importance of material prosperity sometimes takes too large a place in the thoughts and activities of man.

A profession like yours, which in particular occupies

itself with economic and financial matters and is surrounded as it were by an atmosphere saturated with materialism, is peculiarly susceptible to this danger. I see, however, that you do not need a warning against this as you have decided to start your proceedings with a discussion on the principles of your profession, a topic which is in itself of a spiritual rather than of a material character.

For an outsider – and I most certainly, despite my varied activities, cannot claim sufficient knowledge of your noble profession – it is interesting to see how and on what grounds your profession performs its principal function. In his certificate the accountant expresses his professional opinion as the result of his examination and audit. And this certificate is accepted throughout the free countries of the world as the hall-mark of reliability of financial statements.

Surely only in a society where the individual has freedom of thought and freedom of speech can such an instrument be successfully applied as a confidence-inspiring factor in economic and financial matters.

That is to say, a high degree of appreciation by society for the judgment of the individual members of your profession is a prerequisite for the performance of your profession's function. It seems to me that you will only be able to reach this goal if you succeed in feeling yourselves members of a fraternity which is based on mutual understanding and appreciation, which would promote and strengthen feelings of friendship and goodwill.

There are already many signs of a widespread desire in the world in general to achieve a greater measure of world brotherhood, which in its turn would considerably contribute to a lasting world peace. But as such a brotherhood must be based on those sentiments of understanding and goodwill of which I have just spoken, it is clear that intellectual professions such as yours must do their best to achieve this goal.

I now leave you to your discussions in the hope – even with the conviction – that this international gathering will be one more valuable contribution to the great work and aim of your profession. (*Applause.*)

Dr Veldkamp's Address

Dr G. M. J. Veldkamp, State Secretary of Economic Affairs, then addressed the Congress. He said:

I feel it to be a privilege and a pleasure to bid you a hearty welcome, on behalf of the Government, to this Seventh International Congress of Accountants. In particular I welcome the many hundreds of foreign participants who have come to this country from every part of the world to attend this interesting congress.

It is a reason for particular gratification that for the second time in the history of international accountants' congresses a Dutch invitation has been accepted by the competent organizations in so many countries. I think I may interpret this as an international acknowledgement of the high standards which have long characterized the Dutch accountant's profession, as organized in the sponsoring bodies.

Another cause of satisfaction is that this international congress is to be held in the Netherlands, a country which has always been internationally minded and has ever set the greatest store by good external relations. For centuries past, foreign trade, as a result of this country's geographical position, has held a prominent place among the activities of its population. To maintain and increase the prosperity of this small, densely populated country with but scant natural resources an intensive economic intercourse with other countries will always be indispensable.

Economic Co-operation

It is partly on this consideration that the Netherlands has ever been an ardent advocate of international economic co-operation and played a leading part in the international consultations on this subject, frequently taking the initiative to start or activate such consultations. This holds true of the co-operation among European countries in the various ways in which it has found expression, as well as of world-wide co-operation as embodied, for example, in the general agreement on tariffs and trade.

In this connection, however, I am also thinking of the economic collaboration between the Netherlands, Belgium and Luxemburg, the most advanced and con-

crete instance of economic partnership between a number of countries in these post-war years. In my opinion the Benelux countries have thereby proved to the world that by voluntary co-operation between free and independent nations, sustained by mutual confidence and understanding, results can be obtained which redound to the benefit of all partners. If, Mr President, these principles also inform your Congress, we need not, I am sure, doubt the success of this international gathering of so many eminent experts.

I have wished, ladies and gentlemen, to devote a few words to the age-old international orientation of this country and its people so that the many participants from abroad may feel at home here and this congress may apply itself with the greater assiduity to the problems it has set itself to solve.

That the problems with which modern accountancy has to deal directly and indirectly are manifold these days, need hardly be stressed before this expert company.

Exacting Demands on the Accountant

To promote and guarantee truthfulness in financial accounting by Government departments as well as business undertakings is among the high duties of the accountant, on whom the most exacting demands are made by the constantly shifting influences to which our social life is exposed. And it seems warranted to make particular mention here of the practical significance of the profession with regard to the collection of direct taxes, which in modern national communities has become an indispensable but very complicated business.

Besides this task, Mr President, of ensuring truthfulness in financial accounts, to which I have just referred, a matter which I deem of surely no less social importance is the contribution the accountant makes to the efficient functioning of public services and commercial undertakings. This holds especially true of our time, now that the tempestuous pace at which technology advances, providing new ways of creating material wealth, confronts us with ever new problems brought on by their practical application.

Although man's ingenuity and his never flagging energy will go on creating novel and unthought-of ways of production, he will still have to face a shortage of physical means. For this reason an efficient use of available resources will continue to claim our closest attention. I need not explain before this learned company that also in this field much is expected of the expert knowledge and devotedness of your profession now and in the future. You are among those who should be able to give directions for achieving the highest possible degree of efficiency in man's work.

The strong development of accountancy all over the world affords a clear proof of the still rising demand for the highly qualified services the accountant can offer. This rising demand shows itself also in the

Netherlands, in business as well as in official circles.

The task with which the present-day accountant is faced is a multifarious one. A periodical reflection on this task, for which these international congresses offer an opportunity, may well, I think, have a highly stimulating effect on the development of accountancy and thus – in view of the important place the accountant holds in our society – on the evolution of our social life.

The fact that so many leading men of the accountancy profession have come to Holland from all over the world to attend this congress prompts me to express a desire and a hope that your talks may be fruitful and that the acquaintanceships to be established here may confirm and enhance your mutual esteem. (*Applause*).

The President's Address

Mr Kraayenhof expressed the appreciation of the Congress to His Royal Highness and Dr Veldkamp. He then referred to the social events in the programme and went on to introduce the officers of the Congress seated with him on the platform.

Members Attending

Continuing, the President said:

The registrations for this Congress, I am glad to inform you, have surpassed by far the estimates we had originally made. There are 104 accountancy bodies represented, from 40 different countries. Our office has issued 2,850 admission cards, of which 1,650 are for members from abroad of whom 750 are ladies and 1,200 are for members of the two sponsoring bodies, including 500 ladies.

Much to our regret you will not find the name of Mr George O. May of the United States of America, the last available visitor to the Congress in St Louis (U.S.A.) in 1904, which has been listed as the first international congress in our field. Mr May, well known to many of you, is still a fighter for truth in economics and accounting, as appears anew from his recent articles in professional periodicals. We invited him to this Congress as our guest of honour, and it was with great sorrow that we learned he could not arrange to come. I may take it for granted that it meets with your approval to send him a cable with greetings from this gathering.

It took twenty-two years before, in 1926, the second international Congress was held, the congress we are still proud to have received in this country.

A glance at the list of the visitors to that congress and to the one of the present Congress, more than thirty years later, will tell you that we have some old-timers among our present visitors. We may take it for granted that they enjoyed their stay in Amsterdam in 1926, for – very much to our pleasure – they have come again.

We deeply regret that we have lost through death the very able and enthusiastic president of the 1926 Congress, Mr E. van Dien, as well as some of his close co-operators.

On the other hand, I am happy to state that quite a number of Dutch colleagues who were responsible for the set-up in 1926 are still alive, and that many of them are present this afternoon. It will give them great satisfaction that the then younger generation has the

privilege of organizing another international congress in the Netherlands.

I have indicated that some courage was needed to extend an invitation for a congress like this. At this moment, feeling that the sponsoring bodies must render an account of their accomplishments, I recognize that courage alone would not have secured any good result had we not also encountered such a heart-warming willingness to co-operate and to assist, both from abroad and in our country.

In the first place, there was the invaluable and indispensable help from the secretariat of the last congress, Mr MacIver and his staff. The Congress Committee wishes to express its best thanks for this ever ready support and experienced advice. We, in our turn, will try our best to give similar assistance to the sponsoring bodies of the next congress.

But we also found full preparedness in many countries to deliver papers on the chosen subjects; many dozens of colleagues from all parts of the world have undertaken to serve as leaders or members of the discussion panels, whilst others are taking the responsibility, as presidents and vice-presidents, for the proceedings in the business sessions. This co-operation has made it possible to realize our strong wish to internationalize to the greatest possible extent the fulfilling of the functions of this Congress.

It is obvious that, apart from this, we had to call upon a large number of members of the two sponsoring bodies to make the machinery of the organization run.

To all these willing helpers, we are most grateful.

Business Sessions

Dealing with the business aspects of this Congress, the President said:

I now would submit to you what we have arranged as far as the business sessions are concerned. As for the selection of the subjects to be discussed at this Congress, we asked for the opinion of the participating bodies on a list of thirteen subjects on which our sub-committees had made a synopsis. It is not my intention to sum up all the reasons why the six subjects on the programme have been chosen, but I should like to say a few words about each of them.

In the last decades private enterprises have succeeded in spreading their interests to an increasing extent beyond the borders of their own country. As a corollary,

the trade in securities has more and more assumed an international character. Consequently the growth of our profession, which was first developed on a more national scale, is now confronted with problems which compel us to compare internationally the differences in the performance of our function. This is one of the main reasons why the subject 'Principles for the accountant's profession' has been chosen for the first plenary session of this Congress.

Ever since private commercial enterprise has played a vital role in production, the profit obtained has been the determining factor for its functioning. Therefore the reporting about the financial results of the enterprise is one of the main objects on which the expert opinion of an auditor is required. Thus it is our professional duty to reflect upon the meaning of profit and upon the means of ascertaining the profit. This reflection is the more necessary since capital investments have become of increasing importance for the running of an enterprise, which involves that long-term developments affect the organization of the business. Amongst these developments changes in value, either through the market or through the currency, have a strong bearing on the business policy. Consequently it is thought that the problem of 'The ascertainment of profit in business' should be dealt with in the other plenary session.

In performing their auditing function, accountants act on the one hand on behalf of third parties interested in the accounts rendered by the management of its stewardship, and on the other hand they act on behalf of management itself. Their functioning on behalf of parties other than the management has greatly influenced the concept of the auditor's responsibility for a fair presentation of the company's assets and liabilities in the balance sheet. The evolution of this concept induces a renewed exchange of views and a further investigation of the principles determining the auditor's responsibility. Therefore the subject of one of the business sessions is: 'The verification of the existence of assets'.

'Budget Control'

The requirements which have to be met by an efficient management control have led to a development of systems which are collectively called 'budget control'. The application of a system of budget control presents many problems, including those in the field of administrative organization. For this reason 'Budgeting and the corresponding modernization of accounting' has been chosen as a subject.

The growing importance of control on behalf of management has still other implications. At first the auditor generally functioned as an independent accounting expert, i.e. as a public accountant. As business increased in size and complexity, another branch of the profession came into being. Within the enterprises, and exclusively on behalf of the management, another function was to be fulfilled, namely, that of the internal auditor. Regarding the present-day views on this youngest branch of the profession, a great divergency exists as to the functional position of the internal auditor and the scope of his duties. At the session on Wednesday afternoon colleagues of different nationalities will exchange ideas on this topical subject: 'The internal auditor'.

Both his audit and his advisory functions confront the auditor with problems in the field of business

organization. During the past decade various trends have developed within the profession. These developments have led to the setting apart of one of the sessions for the subject: 'Business organization and the public accountant'. It is felt that in future this subject will ask for more attention on the part of the practitioners of our profession.

In line with the objectives of former congresses, the Congress Committee does not intend to offer any resolution or recommendation on the problems dealt with. The main objectives were and are: firstly, to reach a better understanding of the various views on the subjects under discussion; that is, to learn from one another the points on which we agree, as well as on the how and why in respect to the points on which we differ; and secondly, to stimulate the study of the theory and techniques of the profession throughout the world.

Welfare of the World

At the opening of the 1952 congress in London, the president, Sir Harold Howitt, described the world situation at that moment in the following words: 'It is sad to reflect that, although the tragedies of two world wars are within the memories of most of us, we do not even yet seem to have learned our lesson.' In re-reading this and having to recognize that since 1952 only little progress has been achieved I could not help recollecting how more than 300 years ago a still quoted Dutch poet, named Camphuysen, expressed himself thus: (freely translated by me).

'Oh, were all people sane and wise,
and striving to do well,
the earth would be a paradise!
Now often she's a hell.'

Both reflections unmistakably point to the individuals as bearers of the ultimate responsibility for the welfare of the world, and not to nations or groups of nations, neither to political parties nor labour unions nor to any association of employers or scientists. It is each of us individually who, by his personal attitude towards his fellow men, exercises a good or a bad influence on the final outcome.

As accountants we are members of a calling which has a strong personal character; in doing our job we are individually responsible. Our profession has retained, and must retain, this characteristic even where in public practice extensive duties have asked for large partnerships of accountants. In the papers for tomorrow morning's business session it anew has been put before us that truth and fairness are guiding principles for the profession; and it is for each of us individually to live up to these principles. In this way everyone, according to his abilities and his place, will contribute to peace and justice in the world, as His Royal Highness has pointed out to us in such a convincing way.

Seen in this light, there is more idealism to guide us in our profession than is generally assumed by outsiders and than is accepted by even some of ourselves. With this stimulating aspect in mind, I am glad to declare the proceedings of the Seventh International Congress of Accountants started. (*Applause.*)

A full report of the proceedings during the Congress, together with photographs, will be published in our next issue.

PRINCIPLES FOR THE ACCOUNTANT'S PROFESSION

by SIR THOMAS B. ROBSON, M.B.E., M.A., F.C.A.

A paper presented last Tuesday morning in Amsterdam at the first business session of the Seventh International Congress of Accountants.

I. Introduction

THE activities of the accountant's profession are world-wide. The principles which should govern its actions are universal. Truth and fairness should be the outstanding characteristics of our profession everywhere. The greater the impact of accounting thought in one country upon the thought of accountants in another, the closer shall we come to universal understanding and application of fundamental accounting principles. That is one of the reasons why we of the profession in the United Kingdom are delighted to take part in this congress and why we believe that, if the highest interests of the profession as a whole are to be assured, properly qualified accountants of one country should be able, under their own professional designations, to work in other countries in friendly co-operation with the skilled accountants of those countries.

Whatever may be his nationality or place of residence, every accountant needs integrity, independence of mind, perception and impartial judgment as well as technical ability and knowledge.

He needs the ability to set out clearly and concisely the conclusions at which he arrives and the facts on which they are based. These qualities are fundamental and this paper assumes their presence in those who have to decide how best, in particular situations, to apply the principles to which the paper refers.

While my remarks are devoted primarily to the principles which are relevant to those who are engaged as public accountants or as their employees, I do not overlook the importance of the other branch of our profession comprising accountants engaged as employees in industrial and commercial concerns or elsewhere. The latter are a substantial proportion of accountants - nearly one-third of the members of my own Institute are so engaged - and I hope that they will feel that much of what I have to say about the principles applicable to public accountants is also relevant for those not in public practice.

II. Functions of the Public Accountant

The main function of the public accountant is to audit accounts as an independent examiner who is not employed in the organization whose accounts he examines. In the United Kingdom the development of this function has received its main impetus from the early appreciation by shareholders in com-

panies of the need for an independent expert to examine, on their behalf, the accounts presented to them by directors and to report whether those accounts present a true picture of the position and results of the company: in other countries it has developed out of a desire by managements themselves to demonstrate to their shareholders that the accounts presented to them have this characteristic.

British company law requires that the annual accounts of every company shall be audited. The law also provides that (except in a special class of companies of the family type) the auditors shall be either members of certain recognized British accountancy bodies or persons having similar qualifications obtained abroad. Annual audits are also required by the



Sir Thomas B. Robson

regulations of many organizations which are not subject to company law.

The public accountant has also other duties besides auditing. He prepares accounts for businesses needing them and advises the proprietors on the implications of the facts which the accounts show. He prepares computations of clients' profits for taxation purposes, submits these on their behalf to the authorities and negotiates agreement of the tax liabilities which arise. In addition he makes investigations and reports on the financial position and past profits of businesses for prospectus and other purposes and his advice is sought either in an independent capacity or on behalf of one of the parties in the formulation of schemes of amalgamation and the valuation of businesses. He provides secretarial or share registration services for companies, gives advice on cost accounting, budgetary control and management accounting and the financial and ac-

counting organization of businesses, assists in the administration of deceased estates, acts as trustee in bankruptcies or as liquidator in the winding up of companies or as receiver or trustee on behalf of debenture-holders. He also acts from time to time as an arbitrator in disputes on financial matters and, subject to what I say about directorships under the heading of 'Independence', he may act as a director of companies.

The public accountant's field of activity in the United Kingdom is, therefore, too extensive for detailed consideration in this paper. The comments which follow will, therefore, be confined to the principle functions mentioned and to matters related thereto.

III. Independence of the Auditor

It is essential that the auditor should be independent of those who are responsible for the accounts which he audits. This is recognized by British company law which prescribes that no director or other officer or servant of a company shall be eligible for appointment as its auditor; nor may the auditor be a partner or employee of an officer or servant of the company unless it is one of the family type of companies to which I referred above.

Many public accountants who act as directors of companies of which they are not auditors do not regard such directorships as impairing their independence in their work as auditors of other companies. Some accountants, however, make a practice of not accepting directorships of any company lest knowledge acquired by them as auditors of one company might influence, or be suspected of influencing, their judgment in their capacity as directors of another company.

There is no rule of law in Britain to the effect that the ownership of a financial interest in a company by its auditor, or the existence of a family relationship between him and any of its officers, necessarily implies a lack of independence. If, however, a financial interest or a family relationship were such that a person could not easily act objectively and with complete independence in the capacity of auditor, then he would be expected to refrain from accepting or continuing in that appointment. Such a position might arise if the accountant were to have a financial interest which is material in relation to the capital of the company or to his personal resources.

The fact that a public accountant who is auditor of a company gives advice to its management is not regarded as implying a lack of independence on his part; but an extension of such services beyond advice, to the point where the accountant participates in management and shares in executive decisions would usually impair his independence and, therefore, his suitability for appointment as auditor. On matters short of this point it is obviously in the interests of all concerned that the best available advice shall be obtained by a company on taxation problems, finance, accounting systems and organization and other

matters with which its auditor is well qualified to deal by reason of his professional skill and knowledge of the company's affairs without in any way departing from his position of independence. Practical experience in the United Kingdom and elsewhere, over a long period of years, does not provide evidence that the widespread practice of rendering valuable advice in this way impairs in the slightest degree the independence of the public accountant in making his report as auditor.

IV. Auditor's Reports and Responsibility

The report in which the auditor states his conclusions upon the work which he has done is of paramount importance both to himself and to his clients. In this paper there is little space for comment on reports other than those on the annual accounts of companies; and even on those the comments must be brief.

In some countries the auditor of a company signifies his approval of its annual accounts by the mere addition of his signature to them; in others, including the United Kingdom and most of the other English speaking countries, he does so by presenting a formal signed record of his opinion of the accounts submitted to him. My preference is to follow the latter course as this procedure serves to emphasize that the accounts are the responsibility of the directors, not of the independent auditor who reports upon them, and, moreover, it enables the auditor to state clearly his opinion with any reservations he wishes to make.

Under United Kingdom law the auditor of a company is appointed by, and addresses his report to, the shareholders. Neither he nor the shareholders can limit his responsibility for his report and for the performance of the work which he has to do in order to be able to present it. If he is negligent and the company suffers as a result he may be sued by the company for damages; if his negligence is of such a nature or magnitude as to involve him in penalties under the criminal law he must be prepared to meet the consequences. In his capacity as auditor he has, however, no responsibility under civil law to third parties such as bankers and others with whom he is not in contractual relationships.

As regards the form and contents of his report, my view is that the simpler and more forthright the expression of the auditor's opinion on the annual accounts of a company, the greater its utility to the shareholders. In my opinion the report should be divested of all unnecessary verbiage and its terms should be reduced to saying whether in the opinion of the auditor, subject to any reservations stated in the report, the accounts show a true and fair view of the state of the company's affairs as at the date of the balance sheet and of the profit or loss for the year, or other financial period, ended on that date. We have not quite reached this position in Great Britain, but shall be very close to it if Parliament adopts recommendations made by my Institute for the elimination of certain matters now required by company law to be mentioned in the auditor's report; for example, he

is at present required in all cases to say whether proper books have been kept and whether he has obtained all the information he has required whereas these are matters which, in our view, need be referred to only where the auditor is not satisfied.

I do not think there is any need for the report to define the scope of the auditor's examination of a company's accounts unless this is necessary for a proper appreciation by the shareholders of the opinion stated in his report. If the auditor has done with satisfactory results all the work which was necessary to enable him to express a clear opinion, then in my view he does not help the shareholder by either a long or short description of the technical processes which he has followed.

In the United Kingdom it is no part of the auditor's duty to include in his report, recommendations on policy or criticisms on policy grounds of the actions of the management. I believe that in some countries the auditor is expected not only to report his view of the validity of the accounts but also to make a recommendation to the shareholders as to whether they should accept the report of the directors. The auditor in my country has no duty of this kind, his responsibilities in the work laid upon him are heavy enough and I, for one, am glad that the additional burden is not laid upon him.

The foregoing is concerned with the auditor's report on the annual accounts of a company. It does not deal specifically with reports on the auditing or preparation of annual accounts of sole traders and partnerships, though the same broad principles apply to them, with the distinction that the scope of an examination of the accounts of a private trader or firm and of the accountant's responsibilities for that examination depends upon the arrangements made between the accountant and his client and upon the extent to which the client is aware of any limitations on the scope of the work done. Reports on such accounts should be so drawn that the client and any other person reading them are made aware of the responsibility which the accountant has undertaken and should contain all the reservations necessary, whether as regards limitations imposed by the client on the scope of the work or as to the validity of the accounts or otherwise. The terms of the report should be such that a reasonably informed reader would not be led to infer that the association of the accountant's name with the accounts implies that they are more reliable than is warranted by the circumstances.

This does not imply any duty on the accountant to state in his report that the profits shown in the accounts of his client are not the same as those which are assessable to taxation. Taxable profits in the United Kingdom are computed in accordance with the taxation laws which differ in important respects from the generally accepted accounting principles by which the profits shown in accounts are determined. This fact is well understood by the taxation authorities and any comment on the matter in the accountant's report would, therefore, be regarded as

redundant. Indeed, one of the important tasks of the public accountant is to negotiate with the Inland Revenue authorities the adjustment required in order to compute the taxable profits from the figures in the accounts. The authorities rightly expect the accountant to be honest and frank in his dealings with them on behalf of his client but they are well aware that this report to his client is relevant only to the fairness of the accounts as such.

The foregoing slight sketch of some of the requirements with which the public accountant's report should comply would be incomplete without emphasis on the need for maintenance of standards such that reliance can be placed upon accountants' reports wherever they may be studied. Only if this need continues to be fully met can our profession continue to enjoy the international status to which it has attained through years of endeavour and achievement.

V. Auditor's Duty

The duty of an auditor of a company, as that duty is seen in the United Kingdom, is to make an examination of such a nature and extent as to enable him properly to give a report of the kind already described. The requirements of such an examination were stated in the English Courts some sixty years ago in words which still apply. The judge said:

'It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case.' (*Kingston Cotton Mill case*, 1896.)

Accountants in my country regard it as fundamental that the auditor should use his own judgment, experience and discretion in deciding the extent and nature of his work in particular matters and we would consider inappropriate any attempt to prescribe detailed rules for his compliance. It is for the auditor to justify his decision if he is later charged with having failed in his duty.

British practice recognizes that in all but small or exceptional cases, the auditor who will eventually have to sign a report stating whether the accounts submitted to him show a true and fair view cannot be expected to make a complete and detailed check of all transactions; indeed that such a check would be neither necessary nor practicable. The auditor examines and takes into account the nature and efficiency of the system of internal control, including the extent and nature of any internal audit, and decides in the light of his judgment and experience the tests which are necessary to enable him to form and express a responsible opinion on the accounts. The extent to which his tests need go into detail, in order that he may be satisfied as to the nature and efficacy of the systems in use and form his opinion on the accounts themselves, differs according to the results of his tests and the circumstances which he meets. In large well-organized businesses the proportion of

the transactions which need detailed examination is much smaller than in businesses where the system of internal control is defective.

How far the existence of an internal audit will enable the independent auditor to reduce his own work is a matter for him alone to decide, bearing in mind his responsibility to form an independent opinion on the accounts. Consultation with internal auditors as to the nature and scope of their work and access to their reports on the work done by them are relevant matters for consideration by the independent auditor in deciding the scope of his own examination, but he alone must make the decision bearing in mind his responsibility and that the extent of his examination must be reasonable in the circumstances. His opinion of the efficiency of the internal audit will be material to his decision.

British practice also recognizes that a great deal of the work undertaken by auditors can properly be delegated by them to members of their own staffs provided that proper control is exercised by the principals. Methods of control and supervision vary, but it is usually regarded as essential to an audit and all similar types of work that the auditor's staff should be required to prepare proper working papers for review by supervisory members of the staff and ultimately by the principals. Such working papers contain two types of information, first, the composition of the various items in the accounts, and secondly a record of the work carried out, including the inquiries made and information received. Arrangements are sometimes made with the officers and staff of companies whereby they prepare certain schedules for the auditor or make available copies of schedules prepared for their own purposes. Provided that such schedules are checked as necessary before being incorporated in the working papers, accountants do not regard this practice as offending against the general principle that the work of the audit should be done by the auditor or by staff employed by him.

VI. Education and Training

The methods of training students to become public accountants differ greatly as between countries and as between accountancy bodies, and in dealing with training I have space only for remarks on the methods of qualification followed by The Institute of Chartered Accountants in England and Wales.

The qualities needed in a chartered accountant (in addition to those of character and those which come from technical knowledge and experience) have been summarized as follows in the booklet of general information which my Institute issues to persons who contemplate training for membership:

'Unless a candidate has reasoning power, an aptitude for figures and a sound knowledge of elementary mathematics he is not likely to succeed in the examinations, although an extensive knowledge of mathematics is not necessary. The ability to be concise and lucid, both orally and in writing,

is important and a thorough knowledge of the English language is therefore essential.

'Patience and concentration are necessary in dealing with both routine work and involved financial transactions. Powers of observation and deduction, as well as quickness in grasping facts, are particularly valuable in carrying out financial investigations of various kinds and in detecting fraud. Readiness and ability to accept responsibility and to act on his own initiative are as vital to an accountant as they are to members of the other great professions, such as medicine and the law. Tact, the power to inspire confidence and the ability to supervise and plan the work of others, are qualities which are essential if the accountant is to achieve success after qualification.'

My Institute considers that a candidate who has the foregoing qualities and has attained a good standard of general education, proved by his having passed an appropriate examination, has a reasonable prospect of being able to be trained to become a chartered accountant.

The process of training involves a period (normally five years) of practical training as an apprentice in the office of a member of the Institute practising in England or Wales and the passing of the Institute's professional examinations. There are two of these. The first, taken about half-way through the period of apprenticeship, is in accounting, auditing, taxation, costing, general commercial knowledge and elementary law. The second taken at the end of the period, is in advanced accounting, auditing, taxation, general financial knowledge, cost and management accounting, and the law relating to companies, liquidations, receiverships, contracts, bankruptcy, trust and other kindred matters.

The Institute attaches the utmost importance to thorough practical training in public accountancy obtained in the course of working as an apprentice in a member's office. It is the combination of this practical training as an apprentice with the attainment of theoretical standards indicated by the results of the examinations and the right kind of personal character which we regard as qualifying a student to be admitted as a chartered accountant. We do not regard experience or training obtained in any other way as being an acceptable substitute. Some countries and other accounting bodies may have different views, and be willing to accept training in a university or in the office of a Government department or an industrial concern, but we are not prepared to do so.

VII. Rules of Professional Conduct

Unlike some other countries, the profession in the United Kingdom has no formal written code of ethics.

We regard it as essential that a public accountant shall be honest with himself and with others, a man of integrity, character and common sense, that he shall do unto others as he would that they should do to him and that he shall do all he can to maintain the esteem in which his profession is held by the public;

but we do not have a detailed code of conduct telling him how to regulate his actions to attain these desirable ends. Much is left to the conscience and sense of responsibility of the individual accountant. If he fails to live up to the standards expected of him the disciplinary machinery of the accountancy body of which he is a member comes into operation. In serious cases the penalty may be exclusion from membership, involving loss of the right to describe himself by the professional designation to which membership of the accountancy body has hitherto entitled him. This disciplinary machinery is operated by the accountancy body itself and there is no appeal from its decision.

My own Institute's charter states that one of its objects is the enforcement of strict rules of conduct as a condition of membership; but its written rules are few in number. Convictions for offences against the law of the land, legal or financial incapacity arising from lunacy or bankruptcy and the like, wilful breach of the Institute's bye-laws and failure to pay its dues are mentioned in the regulations as matters providing grounds for disciplinary action against a member, as are also such matters as connivance in the improper use of a member's name in professional work which he does not control and the improper acceptance or giving of commissions or sharing of profits of or with others without the client's consent. Perhaps, however, the most important of the written rules is one which provides that conduct discreditable to a member is a ground for disciplinary action but does not specify the conduct which is discreditable.

Advertising, improper solicitation and circularization for public accountancy work are not specifically prohibited in the written rules but have always been treated by the Institute as being discreditable acts. The determination of whether a particular act constitutes advertising is a matter for consideration on the facts, but a strict view is taken and even the use of heavy type for insertion of names in directories and the insertion of announcements in the general newspapers of changes in the addresses of offices and in the constitution of firms are viewed as reprehensible. The insertion in the newspapers in the United Kingdom of what are known in some countries as professional cards would not be tolerated, nor would approaches to non-clients with requests for professional work.

It is an unwritten but well understood rule that the affairs of clients must be treated as matters which are strictly confidential. A breach of this confidence would be a discreditable act unless it occurred in circumstances in which the accountant was legally obliged to break the recognized rule. Such a legal obligation exists only in exceptional circumstances.

Being in a position of trust, a public accountant must be scrupulous in matters where his personal interests may be involved and unless he obtains the consent of his clients he should refrain from using for his own benefit confidential information obtained

in the course of his duties. He must not act for clients on opposite sides in a transaction without the consent of both; he must not purport to be independent if he is not so in fact. He must not accept nomination as auditor of a company without first ascertaining from the auditor whom it is proposed to displace whether there is any professional reason why the nomination should be declined.

There are no references in the Institute's regulations to the basis on which fees should be charged and there are no official scales, but the Council of the Institute has stated that fees should normally be calculated according to the type of work done, the grade of person engaged on it and the time occupied. The Council deprecates the charging of fees computed solely by reference to results, particularly where the remuneration is for services rendered in taxation recovery claims.

There is not the slightest objection to a public accountant co-operating with members of other professions in order to secure the best possible advice for his client on matters where the facts make joint advice desirable, but the sharing of profits on such work with persons other than public accountants is prohibited in my Institute unless the client concerned gives his consent.

The public accountant is personally responsible for his actions and those of his employees. This does not prevent him from joining in partnership with other public accountants and practising with them under a firm name; a very large proportion of the public accountants in the United Kingdom are practising in partnerships in this way. Many of these partnerships have been in existence for a century or longer and some of the firm names do not now represent the names of any of the present partners. In view of the importance attached to the personal qualities and responsibility of public accountants they do not form themselves into corporate bodies as is done in some other European countries; and indeed the British company law recognizes the personal nature of the profession by prohibiting a corporate body from being appointed auditor of a company.

VIII. Professional Standards

As has been indicated, there is no prescription in detail of the nature and extent of the work which an auditor of a company is expected to do in the United Kingdom. These are matters for his own judgment and this fact emphasizes the importance of high qualification and sound training.

The Companies Act, 1948, does not standardize the form in which accounts of companies have to be submitted but prescribes the minimum of information which they must show. My Institute, which would regard standardization of the form of accounts as undesirable and restrictive of progress, issues authoritative recommendations to its members on important matters of accounting principles in company accounting and these have been found most useful to members of the profession and business

men generally, but the Institute does not issue recommendations on auditing procedure. There are, therefore, no detailed directives on the form of accounts or on auditing practice; the public accountant makes his own decisions in the light of his experience and the circumstances of the company concerned and determines his procedures in particular cases accordingly. We believe that this freedom for the individual to use his initiative, without the encroachment on his independence which official directives would involve, is not only precious to those who believe in liberty but is best calculated to make for sound development of technique and for the independence of mind which is an essential characteristic of the public accountant.

IX. Conclusion

I commenced this paper by emphasizing the international nature of the accountancy profession. I would like to end with the same thought. The whole aim of the profession is to provide skilled services for the assistance and protection of business activities wherever they are carried on. The overriding principle which governs our profession is that the individual accountant should be properly qualified by suitable training, experience and examination and by his inherent honesty and independence of mind to carry

out the important duties which rest upon him. It is these qualities and not his race, nationality or place of residence which determine his suitability for his task. In the opinion of the Council of my Institute, an opinion with which I profoundly agree, any step which disregards these qualities and imposes tests based on other factors is detrimental to the development of our profession and to the country taking the step; the holding of this congress and its six predecessors give ample support for this opinion.

I realize that the space allotted to me for this paper has enabled me to touch only briefly upon some of the more important aspects of my task and, moreover, has compelled me to confine my remarks almost exclusively to an exposition of the United Kingdom point of view and to the position of my own Institute in particular. On a number of the matters there is much more to be said both from the United Kingdom standpoint and from the standpoint of the profession in other countries and in the latter respect I am relying upon the contributors of other papers to fill some of the gaps which I have left. It is my sincere hope that the limitations of my own paper will induce others to raise in the discussion points which need to be brought into prominence in order that the subject of principles for the profession may be dealt with worthily by the congress.

Weekly Notes

O.T.C.'s: The Association's Guide

The Technical Research Committee of The Association of Certified and Corporate Accountants has prepared a 24-page exposition of the provisions of the Finance Act, 1957, dealing with overseas trade corporations. It is divided into ninety-two numbered paragraphs, with marginal references to the relevant provisions of the Act, and it represents a truly remarkable achievement by way of compression combined with as much lucidity as the provisions will permit. The exposition is aided by a number of simple examples which bring out the points made. Of course, this new legislation must give rise to endless discussion and argument, but there will always be a use for a rapid conspectus of the new code which can be carried in the pocket. The booklet can be obtained at the office of the Association, 22 Bedford Square, London, WC1, price 2s 6d net.

Census of Production, 1958

In accordance with the recommendations of the Verdon Smith Committee on the Censuses of Production and Distribution, the Board of Trade will shortly be notifying all the firms which are to be included in the 1958 census of production.

This census is the first detailed one since 1954 and will be the first in which it will be possible to put the Verdon Smith Committee's recommendations into effect. In preparing it, the Board of Trade have made every effort to simplify the census arrangements in

the hope that the returns may be made more easily and with less delay.

The preliminary announcement of the 1957 census of distribution in our issue of December 1st, 1956, prompted several highly critical letters from readers who felt that the census fulfilled no useful purpose.

The Board of Trade feel that the changes which are now being made will go a long way to allay criticism of the 1958 census. Less information will be asked for than in 1954, and full particulars will be required only from firms employing twenty-five or more persons, instead of from those employing more than ten persons on productive work.

For 1958, full returns will be made for only about 50,000 industrial concerns compared with about 71,000 in the 1954 census. Of the smaller firms, only 17,000 instead of 107,000 will be asked questions about their sales, and 86,000 will be relieved of any obligation to complete census returns.

The main purpose of the census will be to provide more complete information than can be obtained monthly or quarterly about matters of economic importance, such as production, stocks and capital expenditure.

Outlook for Agriculture

Sir James Turner, President of the National Farmers Union of England and Wales, called for a combined operation in the economic, financial, technical and scientific fields to transform the structural basis of

agriculture in his presidential address to Section M of the British Association last week.

He said that the ability of British agriculture to lower its production costs depended in part on two factors over which it had no control. The first of these was inflation, and the second was the level of efficiency in those industries which supply agriculture with goods and services. He then went on to make the interesting point that work study knowledge and advice should be made available to farmers and he thought that every district officer of the National Agricultural Advisory Service should receive work study training.

Sir James's attitude, it is apparent, was an industrial one. He is rightly concerned not only with price policy and the utilization of land, but also with the efficiency and distribution of agricultural production. This refreshing attitude in agriculture which has been developing for a number of years has gone hand-in-hand with increased mechanization. The question of using modern industrial techniques goes even further, however, for there is no doubt that the farming community has much to gain from the increased use of professional advice not least from accountancy.

Free Trade and Fluctuating Exchanges

Professor Meade's presidential address to the Economics Section of the British Association last week had a very topical flavour. His remarks were concerned with the reconciliation of full employment with the establishment of the free trade area. He would clearly like to have both of these things for economic policy, but of the two he thinks that full employment is the more important. Not everyone will agree that full employment in this country can be guaranteed with or without the free trade area now that the European Common Market has come into existence and which may give an increased competitive edge to the challenge of Continental industry.

He has put forward for discussion a European Monetary Fund operating as an adjunct of the organization for European Economic Co-operation. Member countries would deposit currency with it and would draw from it to defend their currency reserves. He would also like to see a gradual transition to flexible exchange rates and import restrictions for limited duration as an escalator clause for countries which get into difficulties.

Finance and Commerce

Economic and political uncertainties continue to affect the flow of business in the stock-markets. Prices drift without any set trend. In metal and commodity markets evidence of over-production in copper and other base metals has made for steeply falling prices and the realization of Government stockpiles of metal presents a major problem.

Distillers

It is quite an event when the board of The Distillers Co Ltd, whose accounts we reprint this week, decide to give more information. Sir Henry J. Ross, the chairman, discloses that approximately 75 per cent of the company's earnings at home and abroad were derived from the Scotch whisky and gin interests and the balance from industrial activities.

Strong requests have been made to the directors for information on these lines since the extension of the company's interests into plastics, chemicals and the biochemicals such as penicillin and streptomycin. The board has taken the view that the group's operations should be seen as a whole and 'having again reviewed all the circumstances', it stands by that opinion. But during the past year 'there have been renewed requests from many quarters for a detailed breakdown of the profits earned by the various divisions in the organization'. And this persistence has at last brought some result.

Sir Henry adds that in considering the 75/25 proportion it must be appreciated that the company's great strength in the Scotch whisky industry (including such names as Haig, Walker, Buchanan and White Horse) has only been built up over many years of trading and maintained by the large and continued

investment in whisky stocks, which today stand at record level. Further, the major portion of profits on potable activities comes from whisky exports and the increase in profits this year was obtained mainly from increased shipments.

Half-yearly Figures

With higher stocks, it has been possible to expand sales which during the year under review showed an increase in the home market of 377,000 proof gallons at 5.8 million. Exports rose from 15.4 million proof gallons to 16.4 million proof gallons or 6.8 per cent, more than half going to the U.S.A. where the demand for the company's brands is still not fully satisfied. In certain markets, however, there are indications that supplies are not far from meeting the demand.

Sir Henry also gives total stocks of maturing Scotch whisky held by the industry at March 31st 1957: approximately 199 million proof gallons, an increase of 18 million on the year and 54.5 million higher than in 1939. The present figure represents a coverage of approximately eight years at the present level of sales, not an excessive figure in itself, but 'judgment and care will need to be exercised in planning for the future to ensure that the distilling programme is reasonably related to the anticipated future demand for Scotch whisky and that the stocks which the industry is laying down do not prove to be more than adequate'.

Six lines in the chairman's statement confirm that this is really an eventful year: results, in future, will be published half-yearly. There will be, of course, says Sir Henry, seasonal and other variations which

may affect the earlier period; and the interim figures will not be audited. 'But as much information as possible will be given to enable the interim report to be a useful guide.' For distillers, this really is a great advance in its public reporting.

Globe Telegraph

The improved accounts of The Globe Telegraph and Trust Co Ltd, for the year to June 30th, 1957, make a break with a long tradition. For over eighty years, says Sir Edward Wilshaw, the chairman, the size and style in which the report and accounts have been presented has scarcely varied. But to make the results more clearly understood by 'those not well versed in the technicalities of accountancy' and at the same time enabling the use of larger type, a new form has been adopted.

The most important change is the single column form for the profit and loss account, previously given double-sided in debit and credit style with three rulings-off and balances brought down at the various stages.

Single column enables the account to be read downwards through total receipts, total expenses, total taxation, earnings after taxation, total available with the amount brought in, the appropriations, and the balance forward.

A special sheet within the report drawing attention to the new form of accounts tells stockholders that the chairman's speech at the meeting will be published in the Press, the newspapers and day of publication being stated. The next step in improved service for stockholders should be the provision of the speech as a statement with the accounts.

Money Market

The Treasury bill rate rose to the highest level since mid-February when the market syndicate's bid for bills was cut to £98 18s 10d on September 6th. The average rate was £4 4s 5-06d per cent. Applications totalled £399,830,000 with outside competition strong. This week's offer is £250 million.

THE DISTILLERS COMPANY LIMITED NOTES ON THE ACCOUNTS

1. RESERVES.

The reconciliation of the opening and closing Reserves is as follows:—

(a) The Distillers Company Limited.

Balance at 31st March, 1956	
Premium on issue of Ordinary Shares	
Gain on realisation of investments and fixed assets	
Miscellaneous capital receipts less payments	
Transferred from Profit and Loss Account	
Balance at 31st March, 1957	

(b) The Group.

Balance at 31st March, 1956	
Premium on issue of Ordinary Shares	
Gain on realisation of investments and fixed assets	
Miscellaneous capital receipts less payments	
Transferred from General Capital Reserve	
Transferred from Profit and Loss Account	

Less:

Transferred to General Reserve	
Transferred to Profit and Loss Account	

Balance at 31st March, 1957

2. CONTINGENT LIABILITIES.

The Distillers Company Limited and the Group have contingent liabilities of (a) £633,287 in respect of uncollateral capital on certain shares included under trade investments and guarantee of debenture stock of an associated company and (b) guarantee of annual interest of £93,160 payable by associated companies.

3. CAPITAL COMMITMENTS.

Outstanding commitments for Capital Expenditure amount to approximately £900,000 for The Distillers Company Limited and £1,086,000 for the Group.

4. FOREIGN CURRENCIES.

Current assets and liabilities in foreign currencies have been converted into sterling at the rates ruling at 31st March, 1957. Fixed assets in foreign currencies have been converted into sterling at the rates ruling at the dates of acquisition.

5. DIRECTORS' EMOLUMENTS.

The aggregate amount of Directors' Emoluments including contributions to Pension Schemes in respect of current service was £231,685 comprising:—
Fees for services as Directors £23,750
Other emoluments 207,935
£231,685

The aggregate amount of Directors' or past Directors' pensions was £49,441 paid in respect of services other than as Directors, whereof £45,700 was paid by a Pension Scheme and £3,741 by the Company.

6. PENSION SCHEME—DEFERRED LIABILITY.

The provision shown in the Balance Sheet of The Distillers Company Limited for deferred liability for contributions to The D.C.L. and Associated Companies Pension Scheme is arrived at after deducting anticipated relief from taxation thereon. In the Consolidated Balance Sheet it is shown after deducting anticipated relief from taxation thereon and also on certain contributions paid on which tax relief is deferred.

7. UNSECURED LOAN STOCK 1964.

Holders of the five per cent. Unsecured Loan Stock 1964 have the option, until 30th November, 1957, to convert stock held by them in multiples of £25, into fully paid Ordinary Shares of 6/8d. each, on the basis of 25 Ordinary Shares for each £25 of stock converted.

CAPITAL RESERVE	REVENUE RESERVES		Profit in Suspense
	Share Premium	General	
£280,176	£2,146,559	£6,000,000	£448,914
85,930	—	—	—
—	12,658	—	—
—	81,791	—	—
—	—	1,500,000	80,813
£366,106	£2,241,008	£7,500,000	£529,727

CAPITAL RESERVE	REVENUE RESERVES		Stock Contingencies
	General	General	
£9,259,834	£22,344,744	£2,395,117	—
65,930	—	—	—
219,801	—	—	—
81,791	—	—	—
—	1,351	—	—
—	4,014,513	—	—
£9,647,356	£26,360,608	£2,395,117	—
1,351	—	—	178,751
—	—	—	£2,163,366

THE DISTILLERS COMPANY LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31st MARCH, 1957

	1957	1956
TRADING PROFIT BEFORE DEPRECIATION	£23,369,732	£21,475,308
Deduct: Depreciation	1,937,130	1,890,513
	<u>£21,432,602</u>	<u>£19,584,795</u>
Add: Income from Trade Investments	1,259,306	1,018,441
	<u>£22,691,908</u>	<u>£20,603,236</u>
Deduct: Interest on Debenture and Loan Stocks	239,110	291,806
	<u>£22,452,798</u>	<u>£20,311,430</u>
PROFIT BEFORE TAXATION		
Deduct: United Kingdom Taxation based on the profits for the year of Home Companies, some of which include dividends from Overseas Subsidiaries ..		
Income Tax	£9,304,279	£8,524,245
Profits Tax	2,840,127	2,216,301
	<u>£12,144,406</u>	<u>£10,740,546</u>
Less: Relief in respect of Investment Allowances	85,848	256,245
	<u>12,058,558</u>	<u>10,484,301</u>
NET PROFIT AFTER TAXATION	£10,394,240	£9,827,129
Less: Attributable to Outside Shareholders in Subsidiary Companies	576,653	617,260
	<u>£9,817,587</u>	<u>£9,209,869</u>
NET PROFIT ATTRIBUTABLE TO THE DISTILLERS COMPANY LIMITED		

	Total.		Dealt with in the Accounts of The Distillers Company Limited		Retained by Subsidiary Companies	
	1957	1956	1957	1956	1957	1956
NET PROFIT ATTRIBUTABLE TO THE DISTILLERS COMPANY LIMITED	£9,817,587	£9,209,869	£6,781,420	£7,131,146	£3,036,167	£2,078,723
Add: Taxation adjustments for previous years	59,196	1,706,382	19,054	1,073,570	40,142	632,812
Surplus arising on actuarial revaluation of deferred liability to Pension Scheme	—	276,589	—	121,900	—	154,689
	<u>£9,876,783</u>	<u>£11,192,840</u>	<u>£6,800,474</u>	<u>£8,326,616</u>	<u>£3,076,309</u>	<u>£2,866,224</u>
Deduct: Amounts written off Investments and Goodwill	£630,512	£1,121,017	£615,000	£1,121,017	£15,512	£ —
Provision for additional pension benefits	—	117,450	—	58,525	—	58,925
Capital duty and other issue expenses	450	5,931	—	1,803	450	4,128
	<u>£630,962</u>	<u>£1,244,398</u>	<u>£615,000</u>	<u>£1,181,345</u>	<u>£15,962</u>	<u>£63,053</u>
	<u>£9,245,821</u>	<u>£9,948,442</u>	<u>£6,185,474</u>	<u>£7,145,271</u>	<u>£3,060,347</u>	<u>£2,803,171</u>
Add: Transferred from Stock Contingencies Reserve	178,751	—	—	—	178,751	—
AMOUNT AVAILABLE FOR APPROPRIATION	<u>£9,424,572</u>	<u>£9,948,442</u>	<u>£6,185,474</u>	<u>£7,145,271</u>	<u>£3,239,098</u>	<u>£2,803,171</u>

WHEREOF:—

TRANSFERRED TO REVENUE RESERVES:—

General	£4,014,513	£5,027,528	£1,500,000	£2,697,500	£2,514,513	£2,330,028
Stock Contingencies	—	446,687	—	—	—	446,687

DIVIDENDS OF THE DISTILLERS COMPANY LIMITED, LESS INCOME TAX:—

Preference Stock	75,900	75,900	75,900	75,900	—	—
Ordinary Shares:—						
Interim Dividend	1,446,271	1,444,698	1,446,271	1,444,698	—	—
Final Dividend	3,073,326	2,769,004	3,073,326	2,769,004	—	—
	<u>£8,610,010</u>	<u>£9,763,817</u>	<u>£6,095,497</u>	<u>£6,987,102</u>	<u>£2,514,513</u>	<u>£2,776,715</u>

Amount unappropriated	£814,562	£184,625	£89,977	£158,169	£724,585	£26,456
Add: Balance brought forward from previous year	9,273,462	9,068,837	2,274,454	2,116,285	6,999,008	6,972,552

BALANCE CARRIED FORWARD	<u>£10,088,024</u>	<u>£9,273,462</u>	<u>£2,364,431</u>	<u>£2,274,454</u>	<u>£7,723,593</u>	<u>£6,999,008</u>
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Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Decimlizing the Coinage

SIR, - I have read with interest the 'leader' in your issue of August 24th. One main objection stated therein to accepting the decimal coinage principle is that this country would be departing from the practice of the nations of the Commonwealth.

It is, therefore, of some interest to note that on August 1st, 1955, the Government of Cyprus, presumably with the knowledge of the Colonial Office, changed its currency denominations from the rather curious division of pounds, shillings and piastres, viz. 1 pound Cyprus = 20 shillings, 1 shilling = 9 piastres, to a simple decimal division of pounds Cyprus and mils, viz. 1 pound Cyprus to equal 1,000 mils.

The experience gained in Cyprus as to how the change was introduced and local problems subsequently overcome could perhaps be put to good use by any committee considering this problem as affecting the United Kingdom.

Yours faithfully,

London, WC2.

D. N. RABAGLIATI.

Training for the Profession

SIR, - It has been a pleasure to read Mr W. E. Parker's authoritative paper on training for the profession (July 27th and August 3rd and 10th issues), and it is assumed that by 'training for the profession' he meant training chartered accountants. Much as I agree with the various changes he suggests, I do not feel that he has gone far enough. Considering that about a third of the Institute's members are now engaged in commerce and industry, it is extraordinary that there has been so little change in the practical training and examination syllabus.

My experience in industry has led me to believe that accountants are seldom as well-equipped for an industrial career as they should be. How often does one come across a situation where there is mistrust between the production executive and the accountant; the inability to talk a common language; an inferiority complex towards the work of other departments simply because of lack of knowledge of the purpose of departments and their routines and methods. A qualified accountant starts with a disadvantage, as he often enters an organization in a senior position amongst colleagues who have spent their whole career in industry.

The Institute's present scheme of training is admirably designed to teach articled clerks all about professional etiquette, the principles of book-keeping and how to detect fraud and error, but how much do we learn about office management, the problems of production and commerce and general business

organization, and what opportunity does a man have of learning to understand the minds and needs of management from foreman level upwards? Without this knowledge and experience it is very difficult to install an effective scheme of financial control or to ensure that the figures are produced as quickly and economically as possible.

I believe that one of the main failings in a chartered accountant's training is that he is not taught the principles of industrial management and he does not have the opportunity when he is young of rubbing shoulders with the junior heads of management in industry and of learning something of the practical problems of industry and commerce from the point of view of those operating the business. I suggest that the present training is in fact a very specialized training as it trains specialists in auditing, taxation and liquidation and what is needed is a training that will assist accountants to become all-round business men with a specialist knowledge of finance and accounting.

To think out a complete training scheme designed to give better industrial experience and training would require much time and thought, but some ideas can be put forward as a basis for discussion. It is suggested that two years in a professional office should be sufficient for a man to obtain a grounding in the principles of book-keeping; elementary company accounting; company law; mercantile law; general commercial knowledge; elements of taxation; and auditing.

The absorption of this knowledge would undoubtedly be helped if an initial period, as suggested by Mr Parker, is spent in learning the principles of book-keeping and the elements of accounting practice, and it is suggested that further shorter periods away from work could be spent in training courses in the other subjects. In my own firm we have found that the time needed for training in the field has been reduced by well-planned courses at our head office in work study, production control and management accounting where principles and practice are taught by lectures, discussion, case studies and exercises. The Intermediate examination, it is suggested, should follow at the end of this two-year period.

During the last three years of training, at least one year should be spent in industry, two years if desired, but at least one year should be spent in the profession. Whether a man is to remain in the profession or to go into industry, it is felt that this period of one year of working in industry could be of the greatest use to him in the future. During this period in industry or commerce a proper scheme of practical training agreed by the profession should be followed.

It is felt that an accountant needs to acquire some experience in the following fields:

- (1) Industrial organization and management, including the problems of industrial relations.
- (2) Financial control.
- (3) Production organization and control.
- (4) Selling and commercial management.
- (5) Office organization and methods.

If some knowledge of these subjects is to be acquired, the trainee will need to move about a business from department to department. He will need to follow a well-thought-out plan of training and will need to read extensively.

Obviously the introduction of such a scheme would pose various problems. First, it would need the co-operation not only of accountants in industry, but of industrial management as well. The need for training in industry is gaining general recognition and it is hardly likely that this idea of improving the training of accountants within industry would not command support provided it had the authoritative backing of the Institute. Then there is the question of the Final examination. The idea put forward by Mr Parker that there should be alternative questions or papers would fit in well with this scheme, questions on industrial accounting and organization being alternative to some of the existing legal subjects which many of us never use after we are qualified. Clearly, questions would have to be designed to fit the knowledge of candidates who had obtained commercial experience in a non-manufacturing industry. Then there is the problem of a man articled in the smaller country practice which had no sizeable industrial or commercial clients willing to accept the candidate for the stipulated period. Perhaps in such cases there could be some link with the larger firms who had more clients willing to take articled clerks than they had articled clerks to fill the vacancies.

The case of the man with the university degree who only spends three years as an articled clerk will also have to be considered. Even in his case it is felt that he should spend some time in industry or commerce, preferably a year. There would clearly be the need to design a two-stage industrial training scheme. First, a one-year scheme to cover the university graduate and the man who only wished to spend one year in industry, and secondly, an extended scheme to cover the man who elected to spend two years in industry.

In putting forward these ideas there is no suggestion that partners in professional firms should lessen their responsibility for training future chartered accountants. It is considered essential that the relationship between partner and articled clerk should remain as it is at present and that the partner should retain his responsibility for ensuring that his articled clerks are following a prescribed scheme of training. The purpose of suggesting these changes is to recognize 'the changing scope of the profession' and to assist those young men who desire to make a career in accounting, particularly in industry, to become more useful accountants.

Yours faithfully,
J. N. STEPHENS.

London, SW1.

SIR, - It would be interesting to know how Mr Parker has arrived at his impression that 'something over 3,000 hours of homework' is necessary to pass the Institute's examinations. If the figure is a fair one, it calls for considerable comment.

An articled clerk may expect to spend roughly 7,350 hours in his principal's office (say 35 hours $\times$ 42 weeks $\times$ 5 years), thus making the total number of hours spent in preparing directly and indirectly, for examinations to over 10,000.

A university student preparing for a degree, whether vocational or liberal, may expect to work fewer than 5,000 hours (say 40 hours $\times$ 45 weeks $\times$ 2½ years). In fact many work considerably less.

The Institute compares its Preliminary examination with university entrance, but it would, I suggest, be bold to compare the academic standard of the Final with that required for a university degree. Yet Mr Parker suggests that the accountancy student preparing for his examinations (designed primarily to test practical experience on 'general competence') should spend three-fifths as much time as a university student and 30 per cent of his total time in purely academic study 'in order to be reasonably sure of passing'. It may be noted that the 3,000 hours appears to be exclusive of the wider reading the articled clerk is supposed to indulge in - it is purely for examination purposes.

If Mr Parker considers this figure to be a fair one, I cannot be as satisfied as he is that the present system of training is sound. Yours faithfully,

Chislehurst, Kent. G. D. NEELY.

Goodwill of Accountancy Practice

SIR, - With reference to the letter from 'Job Buyer' in your issue of August 24th, in reply to an earlier letter published in your columns, there is no question that the value of an accountancy practice does not follow the rules applicable to the valuation of a business, which are based upon the capitalization of super-profits. Businesses tend to be impersonal and can therefore be run by a paid manager. The same cannot be said of accountancy practices, above all the small ones.

It was suggested in a letter to the United States *Journal of Accountancy* some years ago, that 25 per cent of the net profit earned on clients transferred to the purchaser to be paid for each of the first four years would be a fair valuation of goodwill, as distinct from tangible assets included in the sale. It certainly represents a fairer basis than the 'gross fees' method, which accountants should be the first to condemn.

Naturally, there will always be practitioners who drive a hard bargain, and there may even be some who take advantage of youth and inexperience. Those who deal fairly with their successors will no doubt choose a method of valuing goodwill which takes into account overheads, practitioner's salary and the effects of taxation.

Yours faithfully,
KENNETH S. MOST.

London, SW10.

Electronics in the Office

Computers in the Iron and Steel Industry

The British Iron and Steel Research Association is acquiring an electronic computer in the autumn in order to explore the potential applications of computers in the iron and steel industry. The computer, a Ferranti *Pegasus*, is due for delivery in October, and the computer applications section of the Association is now preparing a series of programs for use on the machine.

The industry is finding it increasingly difficult to recruit the appropriate additional labour needed to implement its development plans and it is hoped that with these machines, ways may be found of reducing the number of clerical staff required and of eventually easing the burden on production personnel.

In the steel industry, as in many other industries, the potential applications for computers are in research, in mechanizing clerical work, and in the integration of computers with production units. For some purposes, computers will eventually replace punched-card equipment and other mechanical accounting machinery by reason of their greater speed, capacity and versatility.

Two important uses of electronic computers in the steel industry are likely to be the scheduling of production (including receiving orders and forecasting deliveries) and stock control. Other applications will include calculating wages and analysing, recording, and costing production.

Post Office Payroll

Orders have been placed by the Post Office with two British firms for electronic computing and printing equipment which will work out the payrolls of some 112,000 post office staff in the London area. The value of the payroll to be handled will be more than £70 million a year and it is estimated that there will be an annual saving to the Post Office of up to £100,000 in the cost of pay work.

Pay records which are at present written out will be kept on reels of magnetic film, one reel of which will hold the records for 1,000 payees; a calculation which takes two-three minutes by manual methods will be done by the computer in under a second.

The equipment to be supplied will be two National Elliot 405 computers and two Powers-Samas high-speed printers. In the latter part of each week, after the payrolls have been completed, the installation will be used to produce management statistics.

Magnetic Tape as an Official Document

The United States Government now accepts information recorded on magnetic tape as an official document; the Department of Internal Revenue uses I.B.M. 702 or 705 magnetic tape for the listing of quarterly reports of wage tax under the Federal

Insurance Contributions Act. A second Government agency has also approved the use of magnetic tape for official documents. The New York State Insurance Department will accept the New York Life Insurance Company's annual reserve liability statement filed on such tape; this is the first time that policy records on magnetic tape have been used to determine legal reserve liabilities.

Computer for British Railways

The first electronic computer to be installed by British Railways was officially brought into use on Friday of last week, in the regional accountant's office of the Western Region, at Swindon.

The computer, which will save £10,000 a year, is a Power-Samas Programme Controlled Computer. As its name implies, it performs quite automatically a sequence of arithmetical calculations as required by a program, which can embrace a complete accounting procedure. The data to be processed is fed into the computer in the form of punched cards.

It will first be used on payroll compilation for the wages of 10,000 railway workers at Swindon. Although these workers receive many varying hourly rates of pay, the whole operation from 'hours worked' to 'net pay' will take only two seconds per employee to calculate. The resulting fully-punched cards are then fed into tabulators which print the payslips and payroll.

Built at a cost of £20,000, the computer is on rental to British Railways and its use will reduce the clerical staff on payroll preparation at Swindon from 100 to 60.

Computer Literature

There is already a large amount of literature on the subject of computers. A recent publication issued by the Library Association and called *Electronic Computers in Business: a special subject list*¹ gives a selective set of references to both books and to articles in periodicals on the use of computers in business.

The list recommends as an introduction to the subject *The Management Approach to Electronic Digital Computers*, by J. Sandford Smith (MacDonald & Evans, 35s). For extensive bibliographies of computer literature, the publication recommends two books published by the Controllershship Foundation Incorporated, 2 Park Avenue, New York, 16: *Electronics in Business: a descriptive reference guide*, and its supplement, and *Business Electronics Reference Guide*.

The publication also gives a list of computer manufacturers as a guide to those who may wish to approach particular firms who publish descriptions of their equipment and its application.

¹ The Library Association, Chaucer House, Malet Place, London, WC1. Price 1s 3d.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ORDINARY MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, September 4th, 1957, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. H. Lawson, C.B.E., President, in the chair; Mr W. L. Barrows, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., H. A. Benson, C.B.E., J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, W. G. Densem, P. F. Granger, D. V. House, D. A. Clarke, J. H. Mann, M.B.E., W. E. Parker, C.B.E., Sir Thomas Robson, M.B.E., Messrs C. M. Strachan, O.B.E., E. D. Taylor, A. D. Walker, with the Secretary and Assistant Secretaries.

Certificates of Practice

The following fourteen applications for certificates of practice from associates who have commenced to practise were acceded to:

Bradshaw, Peter Frewin Granville; 1948, A.C.A.; 31 Old Hale Way, Hitchin, Herts.
Clayton, Joseph Alan; 1956, A.C.A.; 11 Albert Square, Manchester, 2.
Dodd, James George William; 1949, A.C.A.; (Ernest James & Co), 11-13 Dowgate Hill, London, EC4.
French, John Walter Lovell, D.F.C.; 1957, A.C.A.; (*W. H. French & Co), 19-21 Cardiff Road, Luton, and at Folkestone and London.
Hartley, Brian Lonsdale; 1957, A.C.A.; (Longthorn, Hartley & Co), 41A Queen Street, Great Harwood, Lancs.
Howitt, Anthony Wentworth, M.A.; 1948, A.C.A.; (Peat, Marwick, Mitchell & Co), 11 Ironmonger Lane, London, EC2.
Marsh, Charles Campbell, 1937, A.C.A.; (Evans Smith, Boothroyd & Co), 99 Fenchurch Street, London, EC3, and at Dover.
Mead, Colin Harvey; 1952, A.C.A.; (*Bicker, Son & Dowden), Hinton Buildings, Hinton Road, Bournemouth.
Miller, Robert Graham; 1954, A.C.A.; (Arthur Price & Co), 3 Liverpool Road, Birkdale, Southport, Lancs.
Millet, Noël Dennis; 1950, A.C.A.; (Leach, Bright & Co), 21A The Causeway, Teddington, Middlesex, and at Guildford, London and Richmond.
Sharpe, Cyril Vernon; 1956, A.C.A.; (D. & C. Sharpe), 49 Bedford Row, London, WC1.
Sharpe, Donald Francis; 1956, A.C.A.; (D. & C. Sharpe), 49 Bedford Row, London, WC1.
Walmsley, Grimshaw Pickup; 1953, A.C.A.; (Stones &

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

Co), National Provincial Chambers, 1 The Borough, Hinckley, Leics, and at Market Bosworth and Nuneaton. West, Donald; 1957, A.C.A.; (John Goulding & Co), 4 Southport Road, Chorley, Lancs.

Elections to Fellowship

Fifteen applications from associates for election to fellowship under clause 6 of the supplemental Charter (bye-law 31) were acceded to.

A list of those who complete their fellowship before September 17th, will appear in *The Accountant* of September 21st.

Admission as Associates

(a) Four hundred and twenty-nine applications for admission as associates under clause 5 of the supplemental Charter (bye-law 31) were acceded to.

(b) Thirteen applications for admission as associates under clause 9 of the supplemental Charter (bye-law 36) were acceded to.

A list of those who complete their membership before September 17th will appear in *The Accountant* of September 21st.

Resignation

The Council accepted the resignation from membership of the Institute of:

Mr Gordon Dick Johnstone, F.C.A., London.

Registration of Articles

The Secretary reported the registration of articles of clerkship as follows:

	1957	1956
August	130	145
January to August	769	821

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Sydney George Skeate Brinkworth, F.C.A., London.
,, Robert Moss Clarkson, A.C.A., Leeds.
,, Ernest Ginnes, A.C.A., Shoburyness.
,, Thomas Holden, F.C.A., Fleetwood.
,, Henry Vivian Lake, F.C.A., Port of Spain, Trinidad.
,, Thomas George Piper, F.C.A., Ilford.
,, Edgar Norton Read, F.C.A., London.
,, Frank Rowley, F.C.A., Bournemouth West.
,, Frederick Varty Spark, C.B.E., A.C.A., Belfast.
,, Gordon Dudley West, F.C.A., Liverpool.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on August 7th, 1957.

Formal complaints were preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council, (1) that Alfred Lionel Shrebnick, A.C.A., was on March 26th, 1957, at Bow Street Magistrates Court convicted (a) as liquidator of a limited company on a charge of

failing to send to the Registrar of Companies a statement with respect to the proceedings in and position of the liquidation of that company for the period ended November 18th, 1956, contrary to Section 342 of the Companies Act, 1948; (b) as liquidator of the same company on a charge of failing

to summon a meeting of the creditors of the company for the purpose of laying before the meeting an account of his acts and dealings and the conduct of the winding-up during the preceding year, contrary to Section 299 of the Companies Act, 1948, so as to render himself liable to exclusion or suspension from membership of the Institute. (2) That Alfred Lionel Shrebnick, A.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that by an Order of the Board of Trade made on May 28th, 1957, he was removed from the office of trustee in the bankruptcy of a certain person for failing to perform his duties as such trustee, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaints against Alfred Lionel Shrebnick, A.C.A., had been proved under all headings and the Committee ordered that Alfred Lionel Shrebnick, A.C.A.,

of Broadmead House, 21 Panton Street, Haymarket, London, SW1, be reprimanded.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a Fellow of the Institute was on March 26th, 1957, at Bow Street Magistrates Court convicted as liquidator of a limited company on a charge of failing to send to the Registrar of Companies a statement with respect to the proceedings in and position of the liquidation of that company for the period ended October 12th, 1956, contrary to Section 342 of the Companies Act, 1948, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and ordered that the member be admonished, but the Committee considered that there existed special circumstances which justified the omission of his name from the publication of the Finding and Decision.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

The Building Societies Acts . . . with extracts from associated legislation. Third edition edited by R. B. Fuller. 1957. (Franey, 42s.)

Business Reports: investigation and presentation; by C. R. Anderson, A. G. Saunders and F. W. Weeks. Third edition. New York. 1957. (McGraw-Hill, 45s.)

Company Executive Development Schemes: a survey . . . (British Institute of Management.) 1957. (Management Pub. 10s 6d.)

Cost Accounting; by C. F. Schlatter. Second edition by C. F. Schlatter and W. J. Schlatter. New York. 1957. (John Wiley, 58s.)

Effective Industrial Management; by J. L. Lundy. New York. 1957. (Macmillan, 44s.)

The Fascination of Numbers; by W. J. Reichmann. 1957. (Methuen, 15s.)

Finance of Overseas Trade; by W. W. Syrett. Third edition. 1957. (Pitman, 30s.)

Management Planning and Control: the H. J. Heinz

approach: a case study . . . (Controllership Foundation.) New York. 1957. (C.F., 27s.)

The Mines and Quarries Act, 1954; by J. R. Pickering. 1957. (Butterworth, 27s 6d.)

Operations Research for Management: Vol. 2: case histories, methods, information handling; edited by J. F. McLoakey and J. M. Copping. Baltimore. 1956. (Johns Hopkins Pr., 63s.)

Profitably Using the General Staff Position in Business; by L. F. Urwick and E. Dale. New York. 1953. (American Management Association, 14s.)

Residence and Income from Abroad. (Association of Certified and Corporate Accountants.) 1957. (A. of C. and C.A., 2s.)

Stamp Duties; by F. Nyland. Second edition. 1957. (Butterworth, 25s.)

Statistics in Theory and Practice; by L. R. Connor and A. J. H. Morrell. Fourth edition. 1957. (Pitman, 30s.)

The World Dollar Problem; a study in international economics; by D. MacDougall. 1957. (Macmillan, 50s.)

For Students

AUDITING

Verification of Fixtures and Fittings

Of all the groups of assets shown on a balance sheet, that of fixtures and fittings is likely to be the most heterogeneous. It may include (and frequently does) anything from display racks to desks, from shelving to steel cabinets.

In the balance sheet, it is usually shown as being at cost, less a provision for depreciation, though occasionally one may find that concurrent with a general revaluation of the assets, it is shown as being at a valuation.

Sometimes an inventory is maintained, but usually there is none, and the private ledger account (as supplemented by the auditors' schedules) is the only information available.

Verification is usually impossible, and the most that a prudent auditor can do is, therefore, to:

(a) ensure that no items have been capitalized that

are more properly chargeable to revenue (e.g. as replacements and renewals);

- (b) ensure that no items have been charged to revenue which are more properly capitalized;
- (c) verify that any additions or discarded items which are apparent are properly recorded;
- (d) confirm that the provision for depreciation is adequate in the circumstances.

In modern accounting technique it is usual for a straight-line method of depreciation to be used on such items, but many companies still use the method whereby a fixed percentage is applied to the reducing balance. In the latter case, it is easy to overlook the fact that a higher percentage figure is required - e.g. under the former method, a provision of 5 per cent each year will reduce the asset to one-tenth of its value in eighteen years, whilst under the latter method the time required will be forty-five years.

The auditor must also bear in mind that under the

terms of the lease, certain fixtures and fittings attached to leasehold premises may pass to the landlord on the expiration of the lease. In such cases, of course, the asset should be written down to nil by the end of the lease, even if an extension of the lease is anticipated, or if the client hopes to take advantage of his position under the Landlord and Tenant Act, 1954, which provides, *inter alia*, for security of tenure for certain business tenants.

Verification of Motor Vehicles

With many assets there exists only one satisfactory method of verification, and when the auditor has adopted this he may be reasonably sure that the asset does in fact exist. With certain other assets, however, there are a variety of minor checks which may be made, none of which is conclusive evidence but which taken together enable the auditor to arrive at a reasonable conclusion that the asset exists and is the property of the client. Motor vehicles fall into the latter category.

The means whereby motor vehicles may be verified are generally as follows:

- (a) Inspection of the Registration Book.
- (b) Verification that the current road licence has been obtained by the client.
- (c) Physical inspection.
- (d) Verification that the vehicle is insured, and that this insurance covers third party risks if the vehicle is licensed.
- (e) Ascertainment that petrol or diesel oil is being supplied to the vehicle.
- (f) Ascertainment that current expenditure on repairs, tyres, etc., is being incurred.
- (g) Inspection of the 'A', 'B' or 'C' licence (where appropriate).

The purchase of a vehicle will be vouched against an invoice and/or receipt, and if the vehicle is being acquired on hire-purchase or credit sale terms, the appropriate agreement will have been inspected. During the period of the agreement, if it is a hire-purchase agreement, the balance sheet will be drawn so as to show that the outstanding liability is secured, but when the payments to the finance company have been concluded, it is advisable to obtain a certificate that the finance company no longer has any financial interest in the vehicle.

COMPANY LAW

Exempt Private Companies

The circumstances under which a private company may claim specified privileges as being 'an exempt private company' are set forth in the Seventh Schedule of the Companies Act, 1948. The basic conditions are as follows:

- (a) That no body corporate is the holder of any shares or debentures; and
- (b) that no person, other than the holder, has an interest in any of the shares or debentures.

In addition, further conditions are imposed by Section 129 of the Act, these being:

- (1) That the number of persons holding debentures of the company is not more than fifty (joint holders being treated as a single person);
- (2) that no body corporate is a director of the company; and
- (3) neither the company nor any of the directors is involved in an arrangement whereby the policy of the company is capable of being determined

by persons other than the directors, members and debenture-holders or trustees for debenture-holders.

There are a number of exceptions to the basic conditions which appear in the Seventh Schedule. These deal with normal dealings of a business nature, cases of death and family settlements, of disability, of trusts for employees, for finance companies providing capital and for bankruptcies and liquidations. One noteworthy exception is that if the shares are held by another private company which is itself an exempt private company, this does not invalidate the first company being itself an exempt private company.

Among the privileges enjoyed by exempt private companies are the following:

- (a) No accounts need be filed with the annual return.
- (b) The company may grant loans to its directors.
- (c) Its auditor need not be a member of a recognized body of accountants or individually recognized by the Board of Trade.
- (d) The auditor may be a partner or employee of an officer of the company.
- (e) Copies of resolutions and agreements which must be filed with the Registrar of Companies need not be printed (unless the resolution is one to increase the company's capital).

In every annual return a director and the secretary of the company must certify that the basic conditions for qualification as an exempt private company have been complied with since the date of the last annual return.

GENERAL COMMERCIAL KNOWLEDGE

The Public Trustee

The Public Trustee Office, as Government departments go, is a relative newcomer to the field of Government services. The office, which is situated in Kingsway, London, WC2, was established by Act of Parliament in 1906, and started business on January 1st, 1908. Within a year, 325 trusts had been accepted, valued at £2,100,000, whilst 253 testators had notified the office that they had nominated the Public Trustee in their wills. Today, the Public Trustee is administering over 18,000 trusts, the funds of which are valued at over £270 million.

Although there are certain cases in which the Public Trustee is forbidden to act (e.g. a trust exclusively for charitable or religious purposes), the Public Trustee is generally available for appointment for the great majority of trusts. By the Act of Parliament establishing the office, the Public Trustee may not make a profit out of his work, and his services are given at cost. (It is only fair to point out, however, that the big banks who undertake similar work in their executorship and trustee departments, and must be presumed to make a profit out of this work, claim that their charges are less than those of the Public Trustee.)

The State undertakes to make good any breach of trust committed by the Public Trustee, in so far as such a breach of trust would be a cause for action against a private trustee. The Public Trustee is, of course, a 'trust corporation' as defined by the law.

Contrary to some erroneous beliefs, the Public Trustee is not confined to investments in 'trustee securities' (as defined by the Trustee Act): he has the same powers as an ordinary trustee on the matter of investment, and can invest in any mode authorized by the terms of the trust.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

AUTUMN MEETING 1958

As already announced, the Council of the Institute has accepted the invitation of the London and District Society of Chartered Accountants to hold an Autumn Meeting of the Institute in London on October 2nd, 3rd and 4th, 1958. It is expected that the programme will be circulated to members of the Institute about six months before the meeting.

The Autumn Meeting Committee feel that as there is such a wide range of hotel accommodation available in London, those who expect to attend the meeting will wish to make their own arrangements, and they are strongly advised to make provisional reservations at an early date. Whilst it is hoped to find places at the meeting for all those wishing to attend, it will be appreciated that at this stage it is difficult to forecast the response and that numbers may have to be limited.

PERSONAL

MR J. STANWAY JOHNSON, F.C.A., formerly practising under the style of J. STANWAY JOHNSON, Chartered Accountant, at 7 Tithebarn Street, Liverpool, 2, announces that as from August 1st, 1957, he has taken into partnership Mr WILLIAM CHARLES HARRISON, A.C.A., who has been a member of his staff for the past six years. The practice will be continued under the style of J. STANWAY JOHNSON & Co, at the same address.

MR H. A. SMITH, F.C.A., practising under the style of RADLEY, SMITH & Co, Chartered Accountants, at Devonshire House, Great Charles Street, Birmingham, announces that he has taken over the practice previously carried on by Mr ERIC FREEMAN, who died on July 12th, 1957. For the present, the practice will be continued under the firm name of ERIC FREEMAN & Co, at Devonshire House, Great Charles Street, Birmingham.

MESSRS GORDON HEYNES & Co, Chartered Accountants, of 40 Pall Mall, London, SW1, announce that as from September 16th, 1957, their London offices will be situated at 10 Hay Hill, London, W1. Telephone: Hyde Park 8771.

MESSRS GEO. T. CLUNIE & SCOTT, Chartered Accountants, of 25a St Andrew Square, Edinburgh, announce that as from September 1st, 1957, they have admitted to partnership Mr KENNETH G. SUTHERLAND, C.A. Mr Sutherland served his apprenticeship with the firm and has remained on the staff since qualifying.

MESSRS WATSON & McLAREN, Chartered Accountants, of North British & Mercantile Buildings, East Parade, Leeds, 1, announce that Mr J. F. WATSON, A.C.A., has retired from partnership in the firm as from August 31st, 1957, on taking up a secretarial appointment. The practice will be carried on by

Mr F. B. WATSON, M.A., F.C.A., and Mr A. D. McLAREN, A.C.A. The name of the firm will remain unchanged.

MESSRS SINGLETON, CARTER & Co, Incorporated Accountants, of 23 King Street, Nottingham, announce that Mr A. J. H. BOOTH, A.S.A.A., who has been with the firm for a number of years, has been admitted into partnership as from July 1st, 1957. The style of the firm remains unchanged.

MESSRS J. SUMMERSKILL & SON, Incorporated Accountants, of Liverpool, announce that as from September 6th, 1957, they have removed their offices to Ashcroft Buildings, 37 Victoria Street, Liverpool, 1. Telephone: Central 6126-7.

MESSRS MAURICE GOLEND & Co announce that they have changed their address from 30 Friars Walk, Southgate, London, N14, to 126 Seymour Place, London, W1. Telephone: Ambassador 0283.

MESSRS BLINKHORN, LYON, GOULD & Co, of Wardrobe Chambers, 146A Queen Victoria Street, London, EC4, announce that Mr MICHAEL CLIFTON, B.Sc.(ECON.), A.C.A., has been admitted as a partner as from September 1st, 1957. The name of the firm will remain unchanged and the practice will be continued at the above address.

PROFESSIONAL NOTES

Mr H. Winterbottom, A.C.A., chief accountant of Alfred Graham & Co Ltd, of Halifax, has been appointed secretary and chief accountant of the company.

Mr D. A. J. Manser, A.C.A., A.C.W.A., has been appointed group chief accountant of Davy & United Engineering Co Ltd, of Sheffield.

Mr Ian T. Morrow, C.A., F.C.W.A., managing director of The Brush Group Ltd, has been appointed chairman of National Free Piston Power Ltd, a new subsidiary company of the group.

CHARTERED ACCOUNTANT TO TOUR UNITED STATES UNDER FOREIGN LEADER PROGRAMME

Mr Desmond B. Hirshfield, F.C.A., senior partner in the firm of Hesketh, Hardy, Hirshfield & Co, Chartered Accountants, of London, has been invited to spend two months in America from September 20th under the auspices of the United States Foreign Leader Programme.

We believe Mr Hirshfield is the first accountant to receive such an invitation. Apart from journeying across the United States and seeing something of the American way of life, Mr Hirshfield will be meeting political and trade union leaders and important personalities in industry and the professions. He will also have the opportunity of studying the American fiscal system and the operation of the capital gains tax,

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and of seeing productivity methods in industry, including developments in the field of automation.

The United States Foreign Leader Programme makes available appropriate dollar funds to further the International Exchange Programme of the Department of State. Under its auspices individual itineraries are arranged for distinguished foreigners to visit America.

ACCOUNTANTS' CONFERENCE IN MANILA

A Far East conference of accountants sponsored by the Philippines Institute of Accountants is to take place in Manila, Philippines, from November 28th to December 1st.

Invitations have been extended by the Institute to accountants in many Far East countries and The Institute of Chartered Accountants in England and Wales and the American Institute of Certified Public Accountants have been invited to send observers to the conference. Delegates from each participating country will be asked to contribute papers.

BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

EIGHTH RESIDENTIAL COURSE

The eighth residential course for articled clerks to be arranged by the joint lecture committee of the Birmingham and District Society of Chartered Accountants and the Birmingham Chartered Accountant Students' Society will be held from Friday, September 20th, to Monday, September 23rd, at Merton College, Oxford, by kind permission of the College authorities.

The course will be divided into Final and Intermediate sections, each of which will have six lectures, followed by discussion in groups led by qualified members of the Birmingham and District Society.

Lectures will be given by the following speakers:

Auditing: Mr K. S. Carmichael, A.C.A., of one of the correspondence schools.

Accounts: Mr H. T. Nicholson, F.C.A., a partner in Messrs Harmood Banner, Lewis & Mounsey.

Costing: Mr W. S. Hayes, A.C.A., financial director, J. & E. Hall Ltd, and a member of the Taxation and Research Committee of the Institute.

Executorship: Mr B. G. Rose, F.C.A., a partner in Messrs Howard Smith, Thompson & Co.

Taxation: Mr H. A. R. J. Wilson, F.C.A., F.S.A.A.

Law: Mr J. A. D. Owen, Barrister-at-Law. Mr F. G. Naylor, Solicitor, a partner in Messrs Acton, Simpson & Hanson, Nottingham.

The course is intended primarily for those sitting examinations within the next twelve months, but others will be welcome as will all students from the Midlands area generally. Owing to the restricted accommodation available at Merton, numbers will be limited to approximately 100, and places will be allotted to the first 100 applicants. Any applicants who fail to obtain a place will be placed on a waiting list in case any successful applicants are unable to attend or

in case any additional accommodation subsequently becomes available.

The charge will be £4 for students enrolled for the joint lecture committee's course of lectures and for members of the Birmingham Chartered Accountant Students' Society residing more than 25 miles from the city centre (the Students' Society is making a contribution to the funds of the joint lecture committee for these students) and £6 for all other students.

WORK STUDY IN INDUSTRY

A booklet describing the widespread application of work study to industrial and commercial activities and showing the benefits which it has already brought, has recently been issued by the British Productivity Council.¹

The booklet is based on an exhibition held in Manchester in October 1956, and sponsored by the Manchester Libraries Committee and thirteen local productivity committees, or associations, in an area extending from North Wales to West Cumberland. The range of application of work study is wide, of course, covering both large and small firms, and the information given in this profusely illustrated booklet is taken from the practical experience of twenty firms engaged in all types of manufacture from steel to soap and paper to penicillin.

STAMP MEMORIAL LECTURE

A Stamp Memorial lecture entitled 'On the decline in the value of money' will be given in the Senate House of the University of London, on November 12th, by Professor R. G. D. Allen, C.B.E., M.A., D.Sc.(ECON.), F.B.A., Professor of Statistics in the University of London. Sir Roger Makins, G.C.M.G., K.C.B., Joint Permanent Secretary of the Treasury, will take the chair.

The lecture, which will commence at 5.30 p.m., is addressed to students of the University and to others interested in the subject. Admission is free and without ticket.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON BADMINTON CLUB

The badminton club of The Chartered Accountant Students' Society of London will hold a trial match at the Bishopsgate Institute, 230 Bishopsgate, London, EC2, on Saturday, September 28th. The trial will start at 2 p.m. and finish not later than 6 p.m. The results of this trial will form the basis of selection of teams to represent the Society in subsequent matches and members interested in playing are invited to write to the Hon. Secretary, Mr B. S. Page, 20 Porthkerry Avenue, Welling, Kent, as soon as possible for further details.

¹ *Industry Uses Work Study*. British Productivity Council, 21 Tothill Street, London, SW1. Price 5s 5d, including postage.

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THE ACCOUNTANT

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ACCOUNTANCY ECONOMICS

THE functions of a new department of the secretariat of the American Institute of Certified Public Accountants will be to assemble information on the economic facts of public accounting and on the problems of conducting an accountancy practice. The genesis of this idea was a speech made last winter by MR MARQUIS G. EATON, C.P.A., the President of the American Institute, in which he outlined the financial commitments which the practitioner incurs, and then examined the correlative question as to whether the profession was being sufficiently remunerated to carry adequately the burden of its very substantial running costs.

MR EATON's estimate of the economic requirements of a practice were rightly based on the cardinal facts that the accountancy profession is 'an intellectual occupation and one of dignity'. This being so, the accountant must have a modern office, an adequate library, a competent clerical and secretarial staff and a sufficiency of mechanical equipment. He should derive from his labours enough to live on in comfortable circumstances, meet his obligations to his family and provide for his old age. These are the minimum conditions which must be satisfied if the accountancy profession is to continue to attract its fair share of the best minds of each new generation. Finally, if the intellectual side of accounting is to be developed as it should, then every practitioner must be able to set aside reasonable time for thought and study without making his office working hours either too long or too concentrated.

Although accountancy is reputedly 'the profession of business', MR EATON pointed out that American accountants know very little about the internal financial aspects of their calling as a whole but that what evidence was available, suggested that the present levels of remuneration in that country were inadequate in view of the breadth and depth of services being performed. Before the two could be equated, however, much factual information would have to be gathered to enable income comparisons with other professions to be made and questions regarding the geographical dispersion of accountancy practices in relation to finance, commerce and industry to be answered. In addition to queries as to the nature and scope of services required by and being given to clients, research into the administration of practices would undoubtedly be helpful. What, for example, should be the optimum ratio of staff to partners in differing types of firms? And what may be regarded as satisfactory ratios of salaries, rent and other expenses to income?

It will be the task of the new branch of the American Institute secretariat to find the answers to these and many other questions. Its activities will be watched with keen interest by practitioners in this country where the same basic problems obtain.

FOREIGN EXCHANGE IN PRACTICE

CONTRIBUTED

IT cannot be said that the Companies Act of 1948 is tedious in its reference to foreign exchange transactions. Indeed, those who have not met this subject in practice could well be excused were they to regard its provisions as a sop to the Government of Ruritania whose currency is encountered, but not too seriously grappled with, in the textbooks. A note as to 'the basis on which foreign currency has been converted into sterling where the amount of the assets or liabilities affected is material' must, however, have exercised the minds of many accountants who find themselves face to face with the accounts of foreign branches or subsidiaries.

A recent paper entitled 'Problems of foreign exchange in preparing statements and reports' underlines a number of the difficulties encountered in a large-scale overseas operation. The author is Mr Edwin J. Glocke, Comptroller of Mobil Overseas Oil Co Inc, a subsidiary of the world-wide Socony Mobil organization, whose company has more than sixty reporting units in Europe and Africa, which have provided him with an opportunity of studying the problems of foreign exchange at very close quarters.

In discussing the practical problems encountered, Mr Glocke establishes two definitions:

- (i) 'Stable' currency - despite a few misgivings this could be regarded by us as sterling.
- (ii) 'Local' currency - this is the currency of the country in which the foreign unit maintains its local accounts.

Effect of Fluctuations

It goes without saying that a controlling company must see to it that every protection available is employed, both by it and its subsidiaries and branches, to combat the effects of exchange fluctuations.

The ideal situation for a foreign entity would be for its balance sheet to reflect a net current assets position of zero. Such a position can, of course, never really arise, but so long as there is an understanding that a real profit or loss on exchange stems from the owning of assets, or the having of liabilities, in a currency at a moment when that currency appreciates or depreciates in terms of the stable currency, then the management of the parent company are well on the way to avoiding many foreign exchange pitfalls.

The first step towards such an understanding is to grasp the defects inherent in accounts

drawn up from the 'local' point of view:

- (a) The accounts may be incomplete in that they do not reflect losses on exchange resulting from depreciation of the currency in which they are prepared.

In the case of a branch or subsidiary company whose assets and liabilities consist entirely of one local currency and are so expressed, the accounts in that currency will not show any profit or loss on exchange in spite of any fluctuations which may take place in rates of exchange. Such an organization, however, in fact may, from the controlling company's viewpoint, have realized exchange profits or suffered exchange losses, but since such profits or losses are not reflected in the local currency accounts, these accounts in reality are not complete.

- (b) The accounts of a company holding some stable currency assets and liabilities may show fictitious profits or losses on exchange by reason of the conversion of these stable currency assets and liabilities to local currency.

It will be appreciated that if a foreign unit, in addition to its local currency assets and liabilities, owns assets in stable currency, the immediate effect of devaluation in its local currency would be that the stable currency assets would increase in value in terms of the local currency, and therefore a 'book' profit on exchange in local currency would result. Notwithstanding this 'book' profit, since, by definition, the assets are in 'stable' currency, no real profit would be realized in terms of this stable currency. A similar situation would obtain in regard to local currency losses in respect of outstanding liabilities payable in the stable currency.

The defects described above do not apply, however, when correct principles are brought to bear by the parent company in the conversion of the assets and liabilities of the foreign branch or subsidiary. It will be seen that, in the case of (a), when local currency assets are expressed in terms of the stable currency there will be fewer units of the stable currency after a devaluation than there were before. Thus, the stable currency accounts will reflect correctly the real loss on

exchange which is obscured in the local currency accounts. Similarly, real profits in stable currency will be reflected where these have resulted from liabilities outstanding in the local currency.

Where the foreign organization holds assets in the stable currency the expression of the foreign organization's accounts will correctly record the true (stable currency) valuation.

Conflict between Figures

Although the foregoing may at first appear somewhat complex, the findings are really elementary. It is perhaps not quite so easy to see why local currency profits or losses are sometimes at variance with the results arrived at by the parent company when showing the same local currency figures converted to stable currency.

In their simplest form these disagreements result from the correction in the parent company's accounts of the defects in the local accounts already described, but a major difference, the effect of which is not always apparent, can arise in connection with depreciation. Study of the example below will show that local currency accounts in a currency which is declining in real value show insufficient charges for depreciation, whereas the corresponding charges reflected in stable currency accounts give an amount of depreciation which is adequate, always assuming that the depreciation rates are realistic. For the purposes of example, consider the effect of a

	L.C.	Rate	S.C.
Fixed assets (depreciation rate 10 per cent annually) ..	10,000	1·00	10,000
Fixed assets - reserve (third year) ..	3,000	1·00	3,000
Net fixed assets (third year) ..	7,000	1·00	7,000
Depreciation (same as above)			
L.C. ..	1,000		
S.C. ..			1,000
Conversion rate after third year ..		·50	
The effect would be as follows:			
	L.C.	Rate	S.C.
Net profit before depreciation ..	2,000	·50	1,000
Deduct - depreciation ..	1,000	1·00	1,000
Net profit after depreciation ..	1,000	—	—
Local income taxes 25 per cent ..	250	·50	125
Net profit available for dividends ..	750		(125)
Dividend paid ..	500	·50	250
Net profit - credit to earned surplus ..	250		(375)

drop in exchange rate from: 1 Local Currency (L.C.)=1 Stable Currency (S.C.) to 1 L.C.=·50 S.C.

It will be seen that the local currency accounts, reflecting as they do an insufficiency of depreciation, give a local currency *profit* of L.C. 750 whereas the realistic depreciation in stable currency produces a true *deficit*, from the parent company point of view, of S.C. 125. This deficit is increased when dividends are paid out of 'fictitious' local currency profits, and the result of relying on the 'local' view rather than on the parent company's view can well be appreciated.

Another factor sometimes overlooked is the fact that when the exchange value of a local currency undergoes appreciable and permanent depreciation, not only does the amount of stable currency which a unit of the depreciated currency will purchase become less, but eventually the internal purchasing power of the depreciated currency will diminish in terms of goods and services. An organization trading in such local currency, therefore, will suffer a loss as a result of the depreciation of the exchange value of such currency. Conversely, a profit will be realized in respect to any local currency liabilities payable in the depreciated currency. Ordinarily, such gains or losses resulting from fluctuations, as such, in the internal purchasing power of the local currency are not reflected in the local currency accounts or in stable currency expressions of such accounts. Normally, however, there are indicated exchange fluctuations computed by relating the local currency to the stable currency in terms of the new exchange rate versus the previous rate.

From the few examples cited, it will be apparent that local currency figures do not always tell the full story. It is, however, extremely seldom that adjustments can be made in the local currency figures themselves. Sometimes there is failure to realize that such adjustments are necessary. Sometimes, when the need is realized, arguments are produced that to make such adjustments would involve fiscal or legal difficulties. However the problem is tackled, it is important to realize that the duty which lies with the accountant is to bring the limitations of the local currency figures before his management and to ensure that the management is informed clearly and currently of the extent and money value of such adjustments as have not been taken up in the local currency accounts.

Sources of Difficulty

To sum up, the chief difficulties in understanding the repercussions on accounts of variations in foreign exchange stem from two sources:

- (a) Failure to appreciate the differences between a *real* profit or loss on exchange, and *book-keeping* differences of exchange, which do not constitute real profits or losses.
- (b) Failure to realize that a currency has a different value after devaluation from that which it had before. This may be due to the fact that usually the name of the currency remains the same although in effect it has become a different currency. Germany faced such a situation after the Second World War, but solved the problem by making a clean break and changing the name of its currency from Reichsmark to Deutsche Mark. From that point the Germans were able to make a fresh start and go ahead to the sound currency position they hold today.

Remittance Considerations

There are very few countries which permit the free movement of money. In those few the law of supply and demand operates, and the accountant must protect the company, as far as possible, from exchange losses without, at the same time, gambling in exchange.

In most countries today, however, there is in effect what might be termed the 'entitlement' theory of foreign exchange remittances. This is a method by which the flow of foreign exchange out of the country is controlled by the local government. No business has free use of currencies.

It is therefore a matter of prime importance for the accountant of the parent company to be *au fait* with the local regulations, and it will be a matter of nice judgment as to how much should be invested in the country, how much can be exported to the subsidiary, and, in view of the financial outlook of the country concerned, how the subsidiary should be financed to the maximum advantage of its parent. These are some of the considerations which must be borne in mind when assessing such matters as investment programmes and dividend policies.

Reporting of Costs

For the purpose of reporting costs, both post-factual and projected, it is desirable for the financial office of the parent to use current

exchange values. In doing so, the possibility of providing an accumulation of depreciation provisions too low to cover replacements of fixed assets must not be lost sight of. Although it may not be common practice to make such adjustments in the accounts and financial reports of the local office, they should certainly be reflected in cost reports submitted to the parent company management for their guidance.

In the case of inventories, it may be necessary, in order to arrive at realistic current costs, to use a replacement cost method thereby avoiding the difficulties which may be encountered in using the more conventional first-in-first-out method in an area of widely fluctuating exchange rates.

Company Financial Statements

When it comes to reflecting in the financial statements of the parent company the sterling values of assets and liabilities of foreign units and the results of their operations, a great deal of careful thought is required. Apart from the considerations mentioned above, a broad view should be taken of the foreign exchange outlook generally, and in particular which items overseas should be brought into holding company financial statements, to what extent and at what values.

Perhaps a prudent rule to follow is to show in the financial statements of the parent company only those foreign earnings which have been remitted or which are unrestricted and available for remittance. Whilst reflecting all losses to the extent that they can be determined, any unremitted income from foreign areas which is taken up in the parent company books should be disclosed whenever the amounts are significant, and, when there is any doubt as to remittability, adequate reserves should be established for the amounts so included.

Ordinarily, exchange losses whether realized or unrealized should be charged against current operations, realized gains should be credited to operations, but unrealized gains should be carried in a deferred account except to the extent that they offset prior provisions for unrealized losses.

Conclusion

It has been possible to touch only lightly on the problems referred to in detail by Mr Glocke, but the points he makes surely emphasize the need for awareness and underline the duty of the accountant to make absolutely certain that the pitfalls and troubles which go hand in hand with foreign operations are brought clearly and forcibly to the attention of management.

SEVENTH INTERNATIONAL CONGRESS OF ACCOUNTANTS—II

OUTSTANDING EVENT IN AMSTERDAM

The 1957 International Congress came to a close on Friday of last week and the members of the profession from all parts of the world who have been discussing the problems of practice confronting the profession in the pleasing atmosphere of Amsterdam have now returned to their home countries. Without doubt, the 1957 Congress achieved, in full measure, the traditional success of past congresses and high praise is due to the Congress's Dutch hosts and to the Congress Committee and Secretariat for all their untiring work throughout the Congress (and during the preceding months) that ensured the success of the occasion. In our last issue we reported the opening speeches given on Monday and we now continue our report with an account of the proceedings during the other days of the Congress.

FIRST BUSINESS SESSION

PRINCIPLES FOR THE ACCOUNTANT'S PROFESSION

Mr Arthur B. Foye, C.P.A., of The American Institute of Certified Public Accountants, presided at the first session of the Congress on Tuesday morning, September 10th, which discussed 'The principles for the accountant's profession'.

Mr Foye introduced his vice-chairmen, Dr Ernst Allet (Austria), Mr Asbjørn Glomstein (Norway), and Mr N. R. Mody, B.COM., F.C.A. (India), and the members of the panel: Mr L. van Essen Lzn (Nederlands Instituut van Accountants), *discussion leader*; Sir Thomas B. Robson, M.B.E., M.A., F.C.A. (The Institute of Chartered Accountants in England and Wales), *rappporteur and author of a paper*; Mr Carman G. Blough, M.A., LL.D., C.P.A. (American Institute of Certified Public Accountants), *author of paper*; Mr Ölar I. Cassel, CIV. EKONOM. (Föreningen Auktoriserade Revisorer, Sweden), *author of paper*; Mr A. Th. de Lange, EC. DRS. (Nederlands Instituut van Accountants), *author of paper*; Dr. Heinrich Wollert (Institut der Wirtschaftsprüfer in Deutschland e.V.), *author of paper*; Mr Paul Basuttill, F.M.I.A. (Malta Institute of Accountants); Mr J. Grant Glassco, O.B.E., B.COM., F.C.A. (CANADA) (Canadian Institute of Chartered Accountants); and U. Shein (Burma Accountancy Board).

In some countries, the law neither requires audits nor prescribes the qualifications of auditors. In some countries every company must have an audit, whilst in others it is required only for companies in which the investing public have interests. In some countries only persons with specified qualifications may act as auditors of companies, whilst in others qualifications are required only in companies in which the public are interested.

In most countries, accountants also perform other functions. They advise on accounting and system matters, and investigate the accounts of businesses whose owners desire to dispose of them or to obtain additional capital. In some, but not all countries, they act as directors of companies other than those which they audit, as receivers or trustees in bankrupt and other estates, as liquidators of companies, as expert

RAPPOURTEUR'S SUMMARY

The rapporteur, Sir Thomas Robson, a Past President of The Institute of Chartered Accountants in England and Wales, delivered his summary of the papers, as follows:

Our participation here shows the world-wide nature of our profession, and our belief that the principles which should govern it are universal. Accountants need the basic qualities of character and competence, but they need also the benefits which come from contacts with other accountants, from the impact of mind on mind and the discussion of common problems.

The profession itself in every country needs a like impact; it can obtain this by participation in congresses such as this, by the despatch of its members to work in other countries and by the contact which it maintains with accountants from abroad who work within its own country.

The principal function of public accountants is to audit the annual accounts of companies for the benefit of shareholders.

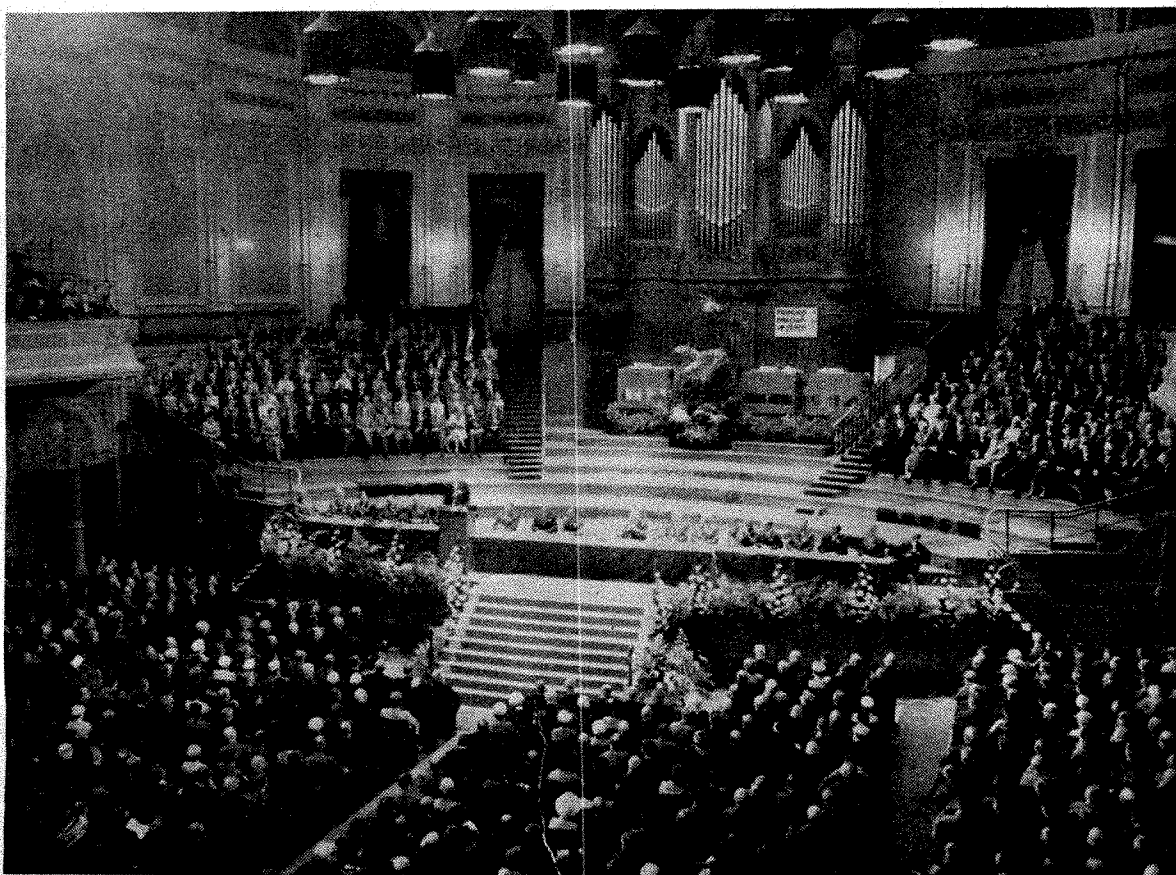


H.R.H. Prince Bernhard of the Netherlands, walking with Mr J. Kraayenhof, President of the Congress, before the opening session

THE OPENING SESSION



At the Opening Session of the Congress in Amsterdam on Monday afternoon, September 9th
Top left: Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., J.P., F.C.A., President of the previous Congress in London in 1952, addressing the Congress when he introduced Mr J. Kraayenhof, the new President. *Top right:* H.R.H. Prince Bernhard of the Netherlands, addressing the Congress which he officially opened. *Below:* The scene in the Great Hall of the Concertgebouw



witnesses in the courts, as arbitrators in disputes on financial matters, and as advisers on taxation.

Other accountants perform functions as whole-time financial directors and controllers, chief accountants or internal auditors of particular companies. These may not have the same independence as accountants in public practice, but they regard themselves as bound none the less to comply with the principles of the profession.

Independence of Auditors

Independence is a fundamental requirement for an auditor. Unless he is independent of those whose accounts he examines, there can be no assurance that he will be objective and impartial in his reports.

Most advanced countries have regulations designed to secure that only the truly independent person shall be an auditor. They, therefore, treat as ineligible those who are directors, officers and employees of the company audited; some of them also exclude persons having a financial interest in the company. In some countries the degree of independence required for the auditors of public companies is greater than for privately-owned family concerns.

The fact that an accountant gives advice to a company is not in general (though not everywhere) regarded as impairing his independence as its auditor as long as he does not participate in executive decisions.

Reports and Responsibility

Some countries have specific regulations as to the contents of an auditor's report; others leave this matter to his discretion. The form and contents of the reports, therefore, differ greatly. In one country a simple signature by the auditor on the accounts may imply his approval. In another a signed opinion stating that the accounts show a true and fair view is considered necessary, or such an opinion together with an indication of the scope and nature of the work done in the audit. In some countries the opinion has to be accompanied by a statement that the accounts comply with the regulations of the country where they are issued or are based on the consistent application of accepted accounting principles. In others the auditor's report has also to include a recommendation that the shareholders should approve the accounts and the proposals of the management.

Whatever form a report may have, it should be clear, concise and forthright, and should indicate unmistakably the opinion which the auditor has formed and the reservations to which it is subject; if he cannot form an opinion he should say so. The work which precedes the report should be carefully planned and skilfully and accurately performed; the report itself should not imply that it deserves a greater measure of reliance than the work done justifies.

In some countries the auditor's legal responsibility for defects in his work (apart from criminal acts) and in that of his staff, is to the company alone, but in others it extends to third parties who suffer by his negligence. Whilst the auditor of a private client's accounts may accept his client's instructions limiting the scope of his audit, the auditor of a company may not in general accept such limitations.

In most countries the personal financial liability of the auditor for failure in his duty is unlimited, though in some it is restricted by law to a specified maximum on each audit. The auditor of a company is not a

guarantor and he should not normally be held responsible for defalcations which the management has failed to detect.

Auditor's Duty

His duty is to ascertain and report whether the accounts presented to him show a fair view of the state of affairs and profits. His work for this purpose differs according to the circumstances, the importance of particular items in relation to the fairness of the accounts as a whole, the size of the company, the system of internal control and its effectiveness, the scope and efficiency of any internal audit. He has to evaluate these and decide for himself the form and extent of his examination.

Reliance on tests and samples as opposed to detailed and complete checks is well recognized as a practical necessity. Any other course would be wholly impracticable in large organizations; it would make the cost of the audit prohibitive and would not make it more effective for its primary purpose.

The auditor must use skill and care and exercise character and intelligence. He must see that his own staff follow his example, for in all but the smallest audits he needs to delegate important duties to them. Delegation of those duties to employees of the company whose accounts are under audit is not appropriate.

Education and Training

Recruits for the profession need to be persons of character, intelligence and ability, with an aptitude for figures, power of clear, concise and grammatical self-expression and a sound general education. Their training differs widely between countries and between professional bodies.

In some countries long practical training in the office of a public accountant, accompanied by study of professional subjects and the passing of examinations of high standards, is regarded as essential. In others the attainment of a university degree in economics or a similar subject is required; in some of these this has to be followed by practical experience over a series of years and the passing of professional examinations, whilst in others it is possible to pass the examination and acquire a diploma without practical experience.

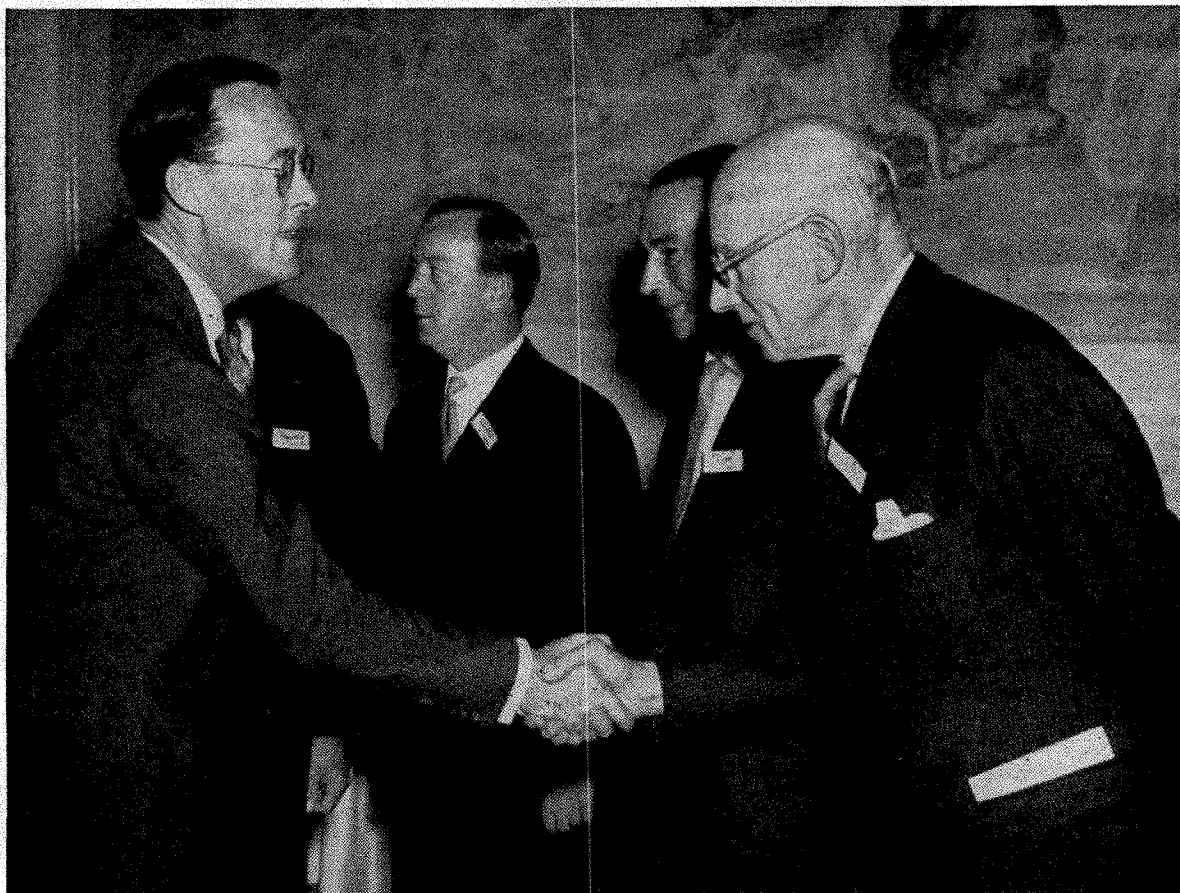
In some countries the qualification consists of admission to membership conferred by the professional institutes themselves; in others it is a diploma conferred by a public authority or a university.

Rules of Professional Conduct

In most countries where there is a highly developed accountancy profession its ethical standards are similar to those of the older professions such as medicine and law.

In some countries endeavours have been made to formulate codes of ethics containing rules of conduct, whilst in others those concerned prefer to state broad principles of conduct without detailed formal written regulations. Failure to live up to the standards expected involves the responsible person in penalties for his fault.

In general, a member of the profession is required to be a man of conscience and integrity, honest with others and with himself, one who does unto others as he would wish to be done to him, one who seeks always to keep the profession high in public esteem. Advertising and improper solicitation of business,



Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., J.P., F.C.A., was presented to H.R.H. Prince Bernhard before the opening session of the Congress

under-cutting of fees and approaches to the clients of other accountants are improper. The sharing of fees with non-accountants without the client's consent and the determination of fees as a percentage of the benefit of the accountant's work to the client are disapproved. The maintenance of professional secrecy about a client's business is essential.

Professional Standards

The profession in every country has much to learn from the experience of others. International congresses and conferences confined to one nation or institute are of the greatest benefit not only to those who attend but also to those who afterwards hear about them. The availability of accountancy literature and of a forum for discussion of opinions and ideas is also very important.

Some institutes issue their own recommendations on principles and procedures; others confine their activities to the examination of candidates for qualification and the exercise of discipline over their members. In some countries attempts have been made to standardize the form of accounts, in some a large measure of freedom is left as to the form but the extent of the disclosure to be made in the accounts is prescribed, whilst in others these matters are left for determination by the individual company and its auditors. It is not, therefore, possible to say that there

is any detailed international standard in these matters, except that accounts in every country should have the qualities of truth and fairness and be the result of the consistent application of recognized principles.

The need for these essential qualities emphasizes the international character of our profession and of the principles which should guide it. Wherever we work our aim should be to serve our clients with the highest possible skill and to provide all the protection in our power for their businesses wherever they may be located or conducted.

Race, nationality and place of residence are not the factors which determine the suitability of the accountant for his task; any failure to recognize this will hurt both the profession as a whole and the country where the failure occurs. The real determinant of the success or otherwise of the profession in any country is whether its members have the right character and ideals, the requisite training, ability and experience, a firm grasp of accounting principles, a sincere desire to serve their clients and the honesty and independence of mind without which the highest service to their clients cannot be given.

DISCUSSION

'Should the auditor accept responsibility to third parties?' was the first question. Dr de Lange of the Netherlands explained how in his country the question

had been tackled by the issue of separate reports to shareholders and management. The tenor will be the same, but the amount of detail varies and this guards against later reproaches by management. It enables the auditor to draw management's attention to matters he could not possibly put before the shareholders and the public. Mr Blough, of the United States, contrasted this with the 'global' responsibility of the auditor in his country and the possibility that reports intended for management may find their way into the hands of creditors and others.

'Was the auditor responsible for detecting defalcations?', was the next question. 'No' – said Dr Heinrich Wollert, and examined the auditor's task. The auditor must see that internal check is effective: that is his contribution in that direction.

Sir Thomas Robson supported this view, pointing out that the 'true and fair view' of the accounts must not be affected. Nevertheless the auditor's work often leads to the discovery of irregularities.

The next two questions dealt with the joint responsibility in partnerships and where there is more than one appointment as is compulsory in Sweden. Mr Blough took the opportunity of showing up the need for ensuring joint responsibility even in large partnerships of 100 partners or more, and the difficulties this involves. Yet, no matter how difficult it may be, joint responsibility must be upheld.

Holding companies involved another, often international, aspect. To what extent should an auditor accept responsibility for accounts of subsidiaries audited abroad? Mr Blough explained both the legal

and professional position in the United States and concluded that the answer lay in thoroughly reliable local auditors and continuous consultation with them by the auditors of the holding company.

Questions from the floor followed and included queries as to whether or not professional experience, as distinct from academic qualifications, should be required before practice rights were granted. Sir Thomas Robson replied that this was one of the questions where national practices varied widely, and no general answer could be given.

Dr Wollert cleared up a misunderstanding that had arisen from this paper. In Western Germany the number of assistants per *wirtschaftsprüfer* is limited to five, but he showed that this applied to the size of the practice rather than the number of clerks employed on a particular audit.

Only for a brief moment did money enter the discussion, which seemed to indicate that accountants have to earn a living but do not consider this more than an incidental implication of their work. The question was raised whether minimum fees in Western Germany did not tend to become maximum fees. 'No', said Dr Wollert, speaking in English, and he went on to explain (amid laughter) that the scales were simply designed to prevent undercutting by – he would not say 'colleagues', but 'by others'. Good quality costs money, he said, although high fees are no guarantee of good quality. In Germany, he continued, actual charges usually exceeded minimum charges because 'we believe that for best work we need more money and more fees'.

THE VERIFICATION OF THE EXISTENCE OF ASSETS

The theme at one of the two sessions on Tuesday afternoon was 'The verification of the existence of assets', and Mr G. F. Klingner, F.C.A., President of The Institute of Chartered Accountants in Ireland, presided.

He introduced his two vice-chairmen, Dr. A. R. Rojansky, C.P.A., F.A.C.C.A. (Israel), and Prof. Avv. Rag. Giovanni Sensini (Italy), and the members of the panel: Prof. Dr. Ernst Knorr (Institut der Wirtschaftsprüfer in Deutschland e.V.), *discussion leader*; Mr J. A. de Lalanne, C.B.E., M.C., B.A. C.A. (CANADA) (Canadian Institute of Chartered Accountants), *rapporteur and author of a paper*; Mr Donald J. Bevis, C.P.A. (American Institute of Certified Public Accountants), *author of paper*; Mr R. Burgert, EC. DRS. (Vereniging van Academisch Gevormde Accountants, The Netherlands), *author of paper*; Mr Claude Paquet, HEC. (Chambre Nationale des Experts-Comptables Diplômés par l'Etat, France), *author of paper*; Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (The Society of Incorporated Accountants), *author of paper*; Mr Hussain Chaudhury (Pakistan Council of Accountancy); Mr G. D. Stewart, F.I.A.N.Z., F.P.A.N.Z. (Incorporated Institute of Accountants of New Zealand); and Prof. B. J. S. Wimble, C.A.(S.A.), F.S.A.A. (Transvaal Society of Accountants).

RAPPORTEUR'S SUMMARY

The rapporteur, Mr. de Lalanne, delivered his summary of the papers, as follows:

The terms of reference for this discussion specifically exclude the question of valuation. It is virtually

impossible to segregate the verification of existence and relative valuation in the case of some assets, but we have done our best to deal in the main with aspects where this conflict is least evident.

The authors are representatives of five different countries, three in Europe and two in North America, and while the basic plans and methods of approach were different in each instance, the conclusions as to our responsibilities and the recommendations as to procedures were very similar.

Existence and Ownership

To begin with, the authors all agreed that the topic presented a twofold inquiry; first, the proving on the one hand that the particular asset did actually exist at the date of the balance sheet, in physical or some other form, and secondly, that the title or right thereto was actually vested in the owner as recorded.

Inspection and Observation

There seemed to be unanimous conviction that under most circumstances and, wherever feasible, observation – or as one called it, 'ocular proof' – is the surest evidence of existence, and that verification of ownership requires varying techniques dependent on the nature of the asset and other relevant factors.

It was recognized, too, that frequency of inspection by the auditor will vary widely, having regard to:

- the size of the organization under audit;
- the location of the various plants, warehouses or other places of business;
- effectiveness of the internal organization and control;

the opportunity for, and possibility of, substitution; the practices adopted by management in determining stocks on hand; and other considerations.

It is suggested that in the case of immovables, for example (at least for distant or out of the way properties), the auditor would be justified in making personal inspections less frequently than once a year if he had other means of satisfying himself that such properties had not been demolished or transformed. On the other hand, there was fairly general agreement that other types of assets, especially those falling within the current class, should be inspected by the auditor on an average of at least once a year.

Simultaneous inspection by the auditor of all assets of the same type is considered to be the ideal, but it is appreciated that this can seldom be attained and hence the problem is to find the best substitute in each individual case.

It is suggested that cash and marketable securities should normally be inspected, or confirmed, as of - or close to - the date of the balance sheet, and preferably at other times throughout the year when an element of surprise can be injected.

As regards inventories of raw materials, work in process and finished goods, the same general principles apply and the closer the inspection to the closing date, the less possibility there would be of shortages developing, provided the internal control of stocks in the interim was satisfactory and adequate. On the other hand, inspections and counts of stocks under pressure at a year-end sometimes lose their effectiveness and might better be replaced by more calm and searching observation of quantities and qualities throughout the year.

For assets such as notes and accounts receivable, I find that there is an increasing tendency towards the detailed audit being carried out prior to the year-end, which again affords more opportunity for appropriate analysis and scrutiny of the accounts, the obtaining of written confirmation or reports where deemed desirable, and the follow through of subsequent credits before the date when the auditor must append his report to the annual accounts.

Ownership

On the question of ownership, the practices in the various countries seem quite similar, e.g. inspection and perusal of:

Property deeds, registrations, progress estimates and billings of contractors for land and buildings.

Suppliers' invoices and receiving records for other purchases and scrutiny of purchase agreements or contracts where such exist.

Registrations on certificates for marketable securities or endorsements if carried in street names.

Identifying documents and public registrations in the case of patents, copyrights and the like.

Confirmation of title by the auditor is considered of prime importance as is also the maintenance of appropriate record of any goods received on consignment or of assets carried for others where it is the business of the client to deal in assets which are the property of others.

Procedure

Reference was made in some of the papers to statutory requirements and legal decisions in the matter of

stock-taking. In Great Britain, for example, there have been, over the years, many judicial pronouncements which held that:

'It was no part of the auditor's duty to take stock';

and in regard to confirmation:

'I think he (the auditor) must take a certificate from a person who is in the habit of dealing with and holding securities, and who he on reasonable grounds rightly believes to be, in the exercise of the best judgment, a trustworthy person to give such certificate.'

In another case:

'In my judgment it would not be right that auditors should deliberately adopt a standard of verification less than ordinary, below the ordinary standard, because the persons with whom they are dealing are persons of specially high reputation.'

In the United States - since 1939 - the auditor has been required to observe inventories and confirm receivables where either of these represents a significant proportion of the current assets or of the total assets of a concern. At first, it was apparently felt that observing of inventories might take the auditor out of



Mr A. D. Walker, F.C.A., a member of the delegation of The Institute of Chartered Accountants in England and Wales, registering on arrival

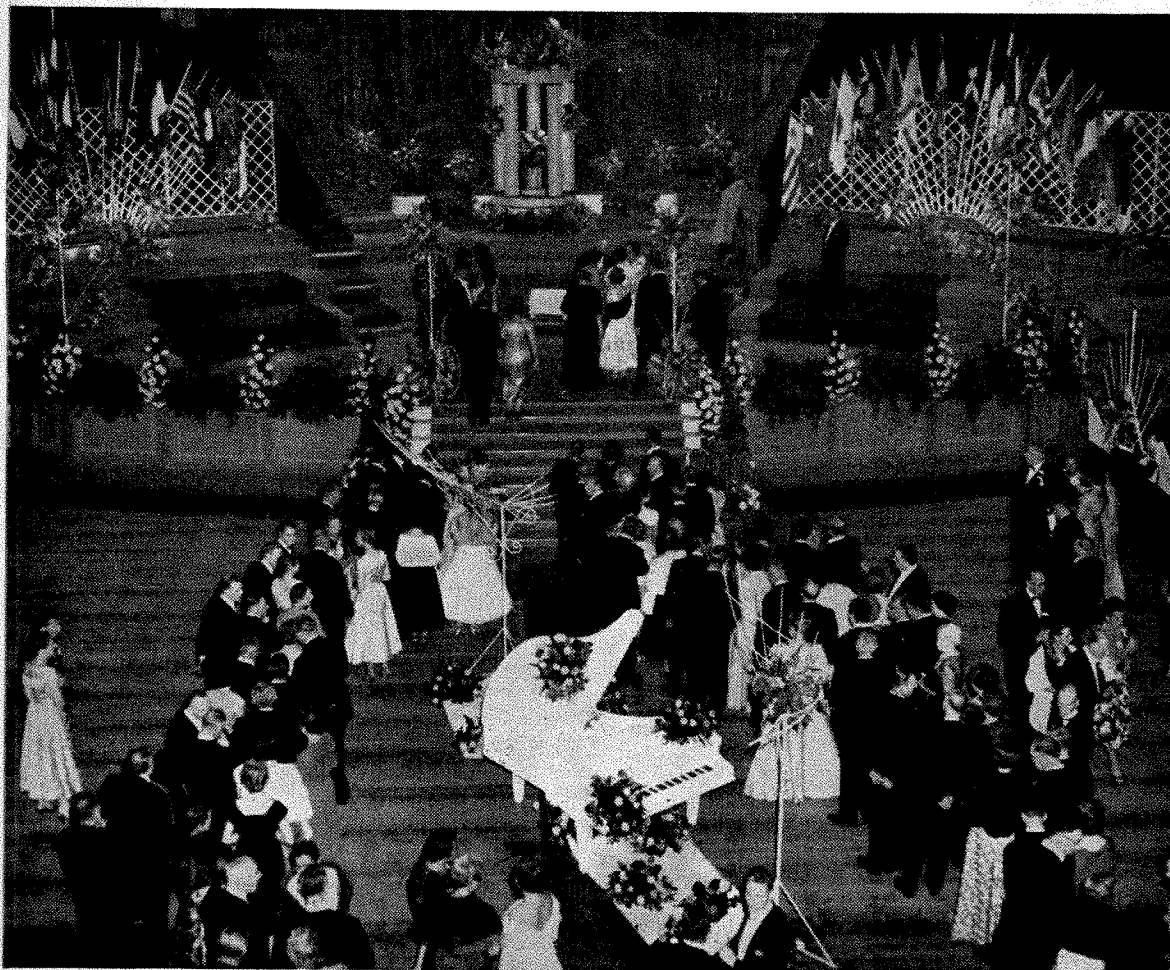
his proper sphere and impose upon him responsibilities which he was not equipped to assume, either by training or personnel. However, as it has developed, the new procedure has not taken away from the company any of its responsibility for taking the inventory, but has merely required the auditor to familiarize himself with the client's organization and plan for stock-taking, and through personal observation satisfy himself of the adequacy, thoroughness and effectiveness of the method of determining quantities and qualities, and the condition of stock and by making such tests - by personal inspection and count - as he may deem advisable.

While it was not always the case and regardless of present legal requirements, the foregoing practice now appears to be receiving more universal recognition as desirable and often essential procedure, if the auditor is to express a constructive opinion on the inventories.

The frequency and extent of the coverage by the auditor by personal inspection will depend to a considerable degree on the completeness of the company's records of purchases, sales, movement within the plant, internal control, perpetual inventory records where such exist, and his method of stock-taking.



Mr A. S. MacIver, M.C., B.A., Secretary of The Institute of Chartered Accountants in England and Wales, being greeted by Mr and Mrs Kraayenhof at Monday evening's reception



The scene at the Reception in the Great Hall of the Concertgebouw on Monday evening as members of the Congress approached the dais to be received by the President and Mrs Kraayenhof and the Vice-President and Mrs van Rietschoten

Responsibilities

It seems to be an established principle in all countries that it is the responsibility of management to maintain an adequate and effective system of accounts, to adopt the appropriate controls for the safeguarding of the properties and other assets, and to prepare such financial statements and reports as are required by the owners; and that it is the responsibility of the auditors to report or express an opinion on the correctness or fairness of such representations of management.

It is the general view, too, that with the ever-increasing imposition of new taxes and the ramifications of governmental and other controls, the responsibility of the auditor goes far beyond the detecting of shortages, substitution by design or accident, and other forms of defalcation—matters now dealt with to a greater degree by management.

The auditor's basic responsibility in this connection is to carry out such tests as he may deem necessary to satisfy himself that the client's organization is so designed and functions effectively to ensure that any malpractices should come to light before they reach undue proportions. This, of course, does not relieve the auditor of any responsibility in carrying out his own tests and particularly those which might disclose any misrepresentations in the accounts which could arise through collusion between responsible officials.

Recommended practice is to avoid stereotyped forms of audits and to vary the audit programme both as regards content, procedure and time of inspection, bearing in mind that there must always be a certain amount of overlapping so as to maintain an element of doubt as to when any phase of the undertaking may be subject to scrutiny by the auditor.

In some countries, such as Canada, the auditors of incorporated companies are appointed by the shareholders and report to such shareholders. The regulating legislation stipulates minimum disclosure and the

matters on which the auditors must report, but no attempt is made to dictate the procedure he should adopt to enable him to form an opinion.

Some organizations, such as governing bodies of stock exchanges, go somewhat further and stipulate the minimum inquiry and procedures which must be followed by the auditor. As regards other countries, I understand that in some instances auditors still report to the directors from whom they receive their appointment and not necessarily directly to shareholders.

Investigations

The annual audit normally covers the overall operations of the particular business, while investigations often are restricted to one or more specific items or phases. In these circumstances, the procedure to be followed and the form of report by the auditor will depend on the terms of reference, the nature of the business, the time element and other factors. In most instances, the auditor will not have had the same opportunity of acquainting himself with the internal organization and the effectiveness of any internal control or internal audit and will probably find himself in the position of having to take a more active part in the organizing and planning of any stock-taking, particularly of materials and stock-in-trade. In such cases, too, he will probably find it necessary to undertake a simultaneous check of the various similar types of assets and to adopt alternative methods of verification which might not normally be adopted as extensively in the case of an annual audit.

In special types of investigation, the auditor is more likely to require outside technical advice to a greater extent than would apply in the case of an annual audit.

To sum up, in regard to the major issues listed in the terms of reference, the general consensus seems to be that:

Stock-taking considered in its broad sense is an essential part of any audit.



At the Reception on Monday Evening

Lord Latham, a delegate of The Association of Certified and Corporate Accountants, and Lady Latham being greeted by Mr and Mrs Kraayenhof

Personal inspection is generally the surest evidence of existence.

For assets which can more easily be substituted, inspections with an element of surprise will be found most effective.

The time, frequency and coverage of any inspection will depend on the nature and size of the undertaking, the extent and effectiveness of the internal control and other pertinent factors.

Practices and procedures will of necessity differ widely in the case of investigations as compared with annual audits.

The auditor need not ordinarily have expert technical knowledge of all phases of the operation and, provided he uses reasonable care and skill, combined with sound judgment, he would be considered competent to carry out an intelligent and adequate verification of the existence of assets.

DISCUSSION

The discussion leader, Professor Knorr, said that in view of the manifold problems it had been decided to confine the discussion to a consideration of some of the major issues. The main question was whether the distinction made in one of the papers between large, medium and small concerns is of real importance.

Mr R. Burgert (Holland) commented that in reading the papers he had formed the personal impression that the train of thought of the English speaking contributors had been inspired by the problems of the large concerns, whereas in his view the Dutch paper had been developed from an appreciation of the problems in small and medium-sized undertakings. He further observed that according to the professional concept in the Netherlands, measures must be taken to ensure that the flow of goods as a whole through the enterprise is audited. With the increase in the size of the undertaking this will have to be done to an increasing extent by examining the organization itself and the internal check of the enterprise.

Professor B. J. S. Wimbles (South Africa) was of the opinion that it is very difficult to lay down general rules to be consistently applied in the verification of assets. He formed the belief that it is not so much the size of the enterprise but the standard of its organization which is the overriding factor. He asked himself whether the responsibility of the auditors in those countries where physical stock-taking by the auditor

is accepted as normal auditing practice, can be satisfactorily defined. He questioned whether, for instance, the recorded stocks of chemicals did in fact represent the real position.

Sir Richard Yeabsley (United Kingdom) stressed the importance of a satisfactory and efficiently operated system of internal check.

Mr D. T. Bevis (U.S.A.), maintained that no categorical answer is possible as far as auditing procedures are concerned, as each case must be considered on its merits. It may be said, however, that in general a smaller organization will have a weaker system of internal control than a larger one. When the auditor takes physical stock, he accepts the accounting evidence as a basis. Mr Bevis also emphasized the importance of the audit of the 'goods movement cycle'. The auditor must be able to influence the procedure for the regular physical stock-taking in the enterprise. The problem of expert technical knowledge of the stock is less serious than it seems to be, since the auditor, by reason of a regular contact with the enterprise, gains sufficient knowledge for his purposes. In exceptional cases he may avail himself of the help of an outside technical expert.

Mr de Lalanne referred to the growing tendency in Canada to pay more attention to the economic significance of the stocks than to mechanical test-checking.

Mr Burgert also pointed out that the auditor's certificate referred not only to the balance sheet but also to the profit and loss account. Any incorrectness in the valuation of stocks can also have an influence on the validity of the profit and loss account.

Mr G. D. Stuart (New Zealand) stated that the auditor can only have a reliable opinion on the existence and the quality of the stocks when he attends the physical stock-taking. He will be able to form an opinion on the work in progress by examining the records and verifying that the goods have subsequently been sold.

Mr Hussain Chaudhury (Pakistan) and Mr C. Paquet (France) gave an explanation concerning the procedures relating to the verification of accounts receivable. In this case too, no stereotyped procedures can be prescribed but adaptation to individual circumstances is necessary.

Mr W. G. Densen (United Kingdom) noted with pleasure, after having heard the various opinions, and bearing in mind what has been written on the subject, that the feeling seems to be that the responsibility for stock-taking is primarily one for the management and not for the auditor.

BUDGETING AND THE CORRESPONDING MODERNIZATION OF ACCOUNTING

Mr H. Hjerno Jeppesen (Denmark) presided at the session which discussed 'Budgeting and the corresponding modernization of accounting' on Tuesday afternoon.

The vice-chairmen were Mr P. J. Tinoco (Venezuela), Dr Jakob Viel (Switzerland) and Prof. K. Kurosawa (Japan), and the members of the panel were Mr Paul Loeb (La Société des Experts-Comptables Français), *discussion leader*; Mr Herbert Rättsch (Institut der Wirtschaftsprüfer in Deutschland e.V.), *rapporteur and author of a paper*; Mr S. Prakash Chopra, B.A., B.COM., A.C.A., F.C.A. (INDIA) (The Institute of Chartered Accountants of India), *author of a*

paper; Mr Joseph Pelej, C.P.A. (American Institute of Certified Public Accountants), *author of a paper*; Mr A. F. Tempelaar (Nederlands Instituut van Accountants), *author of a paper*; Mr J. P. Wilson, F.C.W.A., A.C.I.S. (The Institute of Cost and Works Accountants), *author of a paper*; Mr R. van Iper (Nationaal College der Accountants van België); and Mr Carl Henrik Witt (Föreningen Auktoriserade Revisorer, Sweden).

RAPPORTEUR'S SUMMARY

The rapporteur, Mr H. Rättsch, presented his summary of the papers, as follows:

Views of Contributors

I think that what makes the task of the rapporteur perhaps more than usually rewarding is that each contributor has approached the subject from quite a different angle, and that unanimous answers have not always emerged to quite fundamental problems.

Though short, the five papers do constitute a comprehensive conspectus of the present state of our knowledge of the methods and problems of budgeting. But they show quite clearly that the practical side of budgeting is still in its infancy, and they remind us that there are a number of questions to which it is still not possible to give universally accepted answers.

If one were to ask oneself what is the dominant feature of each of the papers, I think that the answer would be:

The Dutch paper by Mr A. F. Tempelaar stresses the difficulties of medium-sized undertakings which cannot bring the organizing ability of the large-scale enterprise to bear on the problems. The Indian paper by Mr S. Prakash Chopra views the problem as one aspect of the much greater problem of how a government can steer its industry. Mr T. P. Wilson's British paper is very largely concerned with the influence of budgeting on the accounting system of an undertaking and consequently with its influence on auditing, while for our American colleague, Mr T. Pelej, the most important theme is the influence of budgeting in guiding industry. I have in my own contribution put forward a strong plea for elasticity in planning, an obvious requirement of a many-sided economy with a large export trade and a strong tendency to expand.

Importance of the Subject

All papers agree that budgeting is a factor of great importance in the industrial life of a community. But it is interesting to note the differing reasons given for this. My Indian colleague looks on budgeting as the prerequisite for increasing production in a progressive economy, while the representatives of the liberal economies of America, England, Holland and Germany put the business aspect first.

Budgeting is essential to a non-nationalized undertaking because:

- (1) most kinds of production involve considerable risks, on the one hand is the heavy capital investment on plant, on the other hand, the fickleness of markets and the rapidity with which outlets for goods may dry up;
- (2) enterprises are incessantly expanding in size, making delegation of managerial functions and consequently a tightening of control necessary.

All papers, however, agree, though for different reasons, that budgeting involves three matters, planning, control and co-ordination.

Agreed Matters

There are substantial differences between traditional accounting methods and the new management accounting methods. The moment the accountant takes over the functions of planning and control he leaves behind him the purely administrative sphere that he has previously occupied and must make contact, and keep in continual contact, with every department of the undertaking. Questions of *personality* protrude themselves at once. The new type of accountant needs special qualifications; he must have had an all-round training embracing quite a knowledge of the economics

of business; he should be schooled to exercise a great deal of tact. Opposition to his proposals must be overcome before it has had time to develop; and usually the accountant's best course is to seem merely to be offering advice as to how things can be done. But the efficient functioning of a system of budgeting cannot be solely dependent on the capacities and character of the accountant. It is essential that the staff in all departments of the undertaking understand the purpose of planning and control, and are ready to co-operate. Co-operation begins with fixing a standard and ends with joint discussion of the reasons for a variance. It simplifies the task of training the staff if it is made clear to all concerned that the introduction of budgeting will lighten their duties. The essence of a budgeting system is that everyone knows in advance what is demanded of him, and that everyone in a position of command has clear instructions as to what he can and should demand of those subordinate to him. Scientific organizers will know how vital it is to define the channels of responsibility exactly.

Budgeting is, however, a *contrivance* that management must operate, and not a substitute for management itself. It will work most successfully in a closed system. All departments and all levels of the undertaking must be included. The starting-point must be the planning of sales, of production, of purchase, of finance and of profit for the whole undertaking, but the planning must stretch out until it has penetrated every cost centre.

The key that unlocks the knowledge acquired by budgeting and makes it available to the management is the system of *reporting*. Above all the knowledge is wanted quickly so that weaknesses may be dealt with at once and opportunities grasped in time. Reliable conclusions can only be drawn if the standards have been established accurately and scientifically. There are considerable objections to standards based on comparison of times. The type of reporting required depends on the position of the recipient. At the top level of management it will be reporting by exception; persons at that level must not be bothered with masses of detail. Below that level the method employed is that of responsible accounting. Lower levels should be in possession of all the detail required for controlling the field allotted to them. The material should be presented to them in a form which distinguishes clearly those elements for which they are responsible and those for which they are not responsible. The essence of responsible accounting is that only attainable goals should be set. Nothing detracts so much from willingness to co-operate as targets impossible of achievement.

Matters on which Opinions Differ

As always, where accountants foregather to discuss problems, the conflict of views is at bottom a difference of attitudes towards the problem of *values*. Generally the view was held that all planning should be based on replacement cost. The exception was our Indian colleague. In his view the employment of replacement prices as a basis can result in inflation and other undesirable consequences. The reason why he alone takes this view lies in the differing purposes for which accounting is used in a liberal as compared with a steered economy. In the former the computation of costs on replacement prices is a matter of interest purely to the business itself; in a steered economy the bases for the calculation of prices is the costs, con-

sequently costs in this case to influence prices. This is quite another matter, of course.

I would remark that the principle of calculating costs on replacement prices does not rest solely on costing considerations. Creditors are interested and their protection (a matter of special concern to auditors) is important. It is also important to be able to ascertain time profit and that businesses are not parting with their substance.

Another matter which is handled differently in some countries is the treatment of fixed costs where the business is not fully employed. Should they be charged direct to profit and loss account, or should they figure first in the costs of the appropriate cost centre before being charged out to profit and loss account, so that departmental managers are at least aware of what costs the business is bearing.

Finally, views differ as to the most suitable treatment of variances, when they arise between the actual attained and the standard set. There appears to be uniformity neither of terminology nor in views as to the appropriate treatment.

Present Stage Reached

No two countries have developed on identical lines; one can, however, say that almost without exception it is only the larger industrial concerns which practice budgeting; small and medium-sized factories and non-manufacturing undertakings are scarcely represented. Short-term planning is much more commonly found than long-term planning. In India budgeting is encouraged by the Government and certain officials are charged with the duty of popularizing it.

Anyone who has studied the papers submitted cannot fail to perceive that budgeting has great economic possibilities. It obviously falls to the accountant to see that the practice of budgeting spreads. By doing so accountants are aiding their clients, who rely on their advice and at the same laying the foundations for better auditing and accountancy.

DISCUSSION

The discussion was opened by Mr Joseph Pelej (U.S.A.) whose views on the essentials required for a budgetary

system may be cited as they formed the basis for the discussion:

- (1) The establishment of an effective plan of organization and responsibility for performance.
- (2) A review of existing practices and procedures to correct obvious defects.
- (3) The appointment of a budget director.
- (4) The possibility of the revision of the accounting system and of the reports to the management.
- (5) The approach to the mental attitude of those affected by the changes involved.

The exchange of opinion between the members of the panel resulted in the following main pre-occupations: The tendency to overburden management with too much accounting information; a general agreement that standards should be attainable and appropriate to individual circumstances, and that replacement values should be the basis of budgeting rather than historical cost (Mr S. Prakash Chopra excepted). There was a divergence of opinion as to the role of the auditors in the verification of budgetary controls.

After the general discussion of the panel members, six of those present in the hall came to the platform.

Mr Lawrence W. Robson, F.C.A., F.C.W.A. (United Kingdom) was concerned with the need to find accountants with the special qualifications to work with management and to apply the new techniques.

Mr G. Diephuis (Holland) drew attention to the psychological dangers of budgeting. Mr P. J. van Sloten (Holland) questioned that operational research might bring loss of freedom to management, and Mr J. J. N. van Hout (Holland) inquired as to the possibility of establishing standards for office work.

Mr Wayne Keller (U.S.A.) emphasized the need for prompt even daily analytical reports. Professor Anthony (U.S.A.) inquired what was likely to be the most significant development in management accounting before the next congress.

The conclusions reached during the session would seem to be that there was much room for further discussion and that although there was a certain difference in the views of the contributors of the papers and the panel members, in the words of the chairman there was great hope for the future and a desire on all sides for the stimulation of research and for a higher quality in the standards of accountancy.

DINNER FOR DELEGATES

His Royal Highness the Prince of the Netherlands was the chief guest of honour at the dinner for delegates held at *The Carlton Hotel*, Amsterdam, on Tuesday evening. The Congress President, Mr J. Kraayenhof, was in the chair, and other guests of honour were Dr W. F. Schokking, a member of the State Council, Dr G. M. J. Veldkamp, Secretary of State for Economic Affairs, Dr M. J. Prinsen, Governor of the Queen for the Province of North Holland, and Dr A. de Roos, Deputy Burgomaster of Amsterdam.

After the Royal toast, proposed by the President, the toast of 'Heads of States of all nationalities present here' was proposed by His Royal Highness, Prince Bernhard.

Guests from Abroad

The toast of 'The guests from abroad' was proposed in the three Congress languages, English, French and

German. Professor A. M. van Rietschoten, President, Nederlands Instituut van Accountants and Vice-President of the Congress, speaking in English, said:

It is a pleasure and a privilege to me to welcome our guests from abroad in the mother tongue of our profession: the English language.

I think that all of you will agree with me, that the professional bodies represented at this Congress play a prominent part in the development of our profession and members take their duties very seriously.

As a group, the accountancy bodies throughout the world, to me, look like a large family whose members are scattered all over the world. It being impossible to meet frequently, it had only proved feasible to bring about a reunion of the whole family every five years - except when there happens to be a war on. That means, of course, that it is quite an event to have the whole family together.

In part, because we wanted to show our professional friends from abroad the resurrection of this country after

the war, the Dutch bodies in 1952 invited you to come and hold the next meeting in Amsterdam.

The editor of the English journal, *The Accountant*, in a recent article, referred to this city as the 'Venice of the North', because of her many canals. He may not have realized, however, that Amsterdam resembles Venice in yet another respect: the Venetians in the Middle Ages were the traders and freight carriers of the world, and the Netherlands people, especially the merchants of Amsterdam, took over this function after the sea routes to the Far East and to America had been discovered. From the sixteenth century onwards our prosperity has, for a good part, been based on our trade with the East.

Since the Second World War, however, circumstances have changed fundamentally; the trade with the East is to a great extent lost to us, and we are thrown back on our own resources.

The density of population in this country is about three times that of the most populous State in the United States of America. While in the State of New York live about 300 people per square mile, we have more than 900. To a country with small natural resources such a change of circumstances constitutes a challenge.

With Toynbee, many consider the answer a community gives to a challenge is what makes history. We only had our personal abilities left to help us to make the most of our new situation, and we like to think that, with the foreign aid so graciously extended to us, we have not been entirely unsuccessful. That is one of the reasons why we feel somewhat proud to be your hosts for these few days. We feel greatly stimulated by your presence and if it so happens that the proceedings of this Congress benefit our profession, this will be due to you, our guests from abroad. (Applause.)

After the toast in French had been proposed by Mr R. Besançon, a member of the Congress Committee, and that in German by Mr J. G. de Weger, President, Vereniging van Academisch Gevormde Accountants, the first response, in English, was made by Mr Marquis G. Eaton, C.P.A., President, The American Institute of Certified Public Accountants. He said:

I find something amusing in my present situation. It occurs to me that there is something that is more humorous than appropriate in a man from Texas undertaking now to respond on behalf of the so-called English-speaking delegations. We in Texas and in England (to mention only two of the great English-speaking countries!) use maybe the same words, but we pronounce them a little differently and in most cases we use them with different meanings. (Laughter.)

The Problem of Language

When, in these troubled times, we accountants from the various countries of the world meet together we are conscious of the stresses that would tear apart the friendships that sovereign nations should, on moral grounds and on grounds of their own self-interest, feel for each other.

One of the day-by-day and never-ending difficulties arises from the differences of the languages we speak. What a boon to mankind it would be if we all could form our thoughts and communicate them in one great universal language.

The more one nation trades with another, the more each elevates its conditions through the use of the other's goods and commerce, the stronger are welded the links of mutual advantage, links which themselves are not the weakest of the materials of friendship. I need not dilate on the connection between our science of accounting and international trade and investment. We have all found in the history of commerce and industry and in the history of accounting how they have grown and developed hand in hand. Without any question whatsoever they are mutually independent.

We have seen how, until the principles of accounting began to take on their present form, that commerce was restricted to small industries and to limited geographical

areas, in which first-hand knowledge could serve as a substitute for accounting. Fortunately, and as I believe inevitably, accounting has until now, in all of the industrial and trading nations, followed very much the same course of development. It has become the single language in which results and business status are expressed throughout the world. To that important extent we accountants have in our hand for administration for the greatest good of all mankind, a significant part of the universal language we all desire.

I don't believe that I over-dramatize my point when I say that these conditions present us with an opportunity and responsibility of the first magnitude in affairs. We will meet that responsibility to the extent that we guide the future course of accounting to adopt the best practices in whatever country they may originate, and shape it so as to achieve the greatest practical uniformity of accounting principles, of standards of financial reporting and disclosure, of the concept of the independence of the auditor, and the many, many other things which, taken together, make up modern day accounting and the profession of accountancy. It will never be said of the accountants of the world that they failed to bring to full usefulness in the affairs of mankind the part of the universal language that was in their keeping.

In closing, I express this wish for our profession of accounting - may she continue for ever to be distinguished for her vital role in building toward a greater and greater world social order. (Applause.)

Replies in French and in German were made by M A. Veyrenc, President, L'Ordre National des Experts - Comptables et Comptables Agréés and Herr Dr O. Bredt, President, Instituts de Wirtschaftsprüfer in Deutschland.

'The Accountancy Profession'

The toast of 'The Accountancy Profession' was proposed by Dr W. F. Schokking, who said:

In our present day your profession has become an indispensable element in governmental affairs and in business.

Now that you are away, I wonder in how far a kind of feeling of unrest and feeling of unsettlement is developing among your clients and employers who are foregoing the benefit of your wise auditing. I am told that they rely to such an extent on your most valuable advice, that they will only find their bearings the moment you have come back to their rescue. (Laughter.)

Your scientific training as accountants is a guarantee that economic and financial problems can be reduced to their real proportions.

According to my conviction your training implies mastering the 'know-how' of getting rid of so-called important items - mastering the art of clarifying the facts and data. Your education implies that an authoritative advice should be based on character and qualification.

Last, not least, the power and capacity to convey this well-founded advice to the client or employer in question.

As I understood from the address at the opening session, in the international field much more is required in your profession than was the case in the past.

Since the Second World War there is steady increase in the rate in which the evolution proceeds. I feel confident that you are not only living up to expectations but are taking the lead and going ahead unswervingly.

I do not mean to say that the responsibilities of your clients - whether Ministers or Government officials or directors of companies are concerned - has been taken over or should be. Not by any means!

Your profession, however, has brought about a work of art. It has created a 'responsibility of your own' - a creation because it is something new which was not there before.

And now I want to raise my glass in honour of your profession, most valuable and indispensable in our modern world. (Applause.)

Mr J. T. Dowling, C.A., President, The Institute of

Chartered Accountants of Scotland, responding said:

As you, Mr President, have indicated, the honour of replying to the toast which Mr Schokking has proposed in such encouraging terms has fallen to me because I am privileged to be President for this year of the oldest existing accountancy body in the world, The Institute of Chartered Accountants of Scotland.

In this city I would like to acknowledge the special debt which the profession in Scotland owes to the Netherlands. I refer to the fact that George Watson, the first Scots accountant to set up in public practice, learned his book-keeping here in the Netherlands. In Edinburgh you may still see account books in his writing which open with the words: '*Laus deo ady primo*, July 1674 in Rotterdam'.

It has been suggested that where there is one accountant he will produce an acceptable set of figures, but that where there are two or more accountants they will produce an argument (*laughter*). That is probably an over-statement. But it is true to say that there are accounting questions on which there are differences of opinion amongst accountants. I do not think that this is to be regretted; on the contrary, it is from the resulting discussion and debate that the correct answer often emerges.

A Congress such as this is a good prophylactic against parochialism. I feel certain we can learn much from each other and thus add to the store of knowledge on which we

can draw, when we are called upon to discharge that duty which, I hope, will always lie in the path of the qualified accountant, and which none should wish to shirk – the giving of that invaluable service to the communities of the world which consists in the expression of impartial and informed opinion on accounting and allied questions based on a critical analysis, by a trained and independent mind, of all the relevant facts and circumstances. (*Applause.*)

In a toast to the Congress Committee, Mr W. H. Lawson, C.B.E., M.A., F.C.A., President, The Institute of Chartered Accountants in England and Wales, said:

I am sure that you would all like to drink just one more toast, a toast to the Congress Committee. Our hosts are giving us the most wonderful evening, and I'm sure this evening will remain in our memories as one of the most happy occasions of this whole Congress.

Now this is not the time to propose a vote of thanks to the Congress Committee, we were told yesterday that in Holland we must not praise the day before the night. Nevertheless, I hope I may be allowed to say on behalf of all the guest bodies that we do feel that the Congress has started magnificently and we are seeing the result of this tremendous work which has been put into its organization by the Committee and its President, Mr Kraayenhof, and if I may add, with an extremely able secretariat, led by Mr de Bruyne and Mr Boertien. (*Applause.*)



At the Dinner for Delegates on Tuesday evening

Left to right: Mr J. R. Dowling, C.A., President, The Institute of Chartered Accountants of Scotland; Prof. A. M. van Rietschoten, President, Netherlands Instituut van Accountants and Vice-President of the Congress; Dr G. M. G. Veldkamp, Secretary of State for Economic Affairs; H.R.H. Prince Bernhard; Mr J. Kraayenhof, President of the Congress; Dr W. M. Schokking, a member of the State Council of the Netherlands; Mr M. G. Eaton, C.P.A., President, The American Institute of Certified Public Accountants

We do realize that the success of this Congress is not due only to organization, but we do appreciate enormously the wonderful friendliness and kindness of our hosts. In these days it is not always that forty countries agree about anything, but I am quite sure that we all agree tonight in thanking our hosts and the Congress Committee for all they are doing for us. (*Applause.*)

The President, Mr Kraayenhof, concluded the dinner with the following words:

I can only accept your nice and kind words on behalf of the Congress Committee and of the sponsoring bodies of which many members shared the work with us, and I must say to you all that we thank you very much for coming. *Beaucoup de remerciements que vous êtes venus. Tausend mal Dank dass Sie gekommen sind.*

BUSINESS ORGANIZATION AND THE PUBLIC ACCOUNTANT

At the session on Wednesday afternoon which discussed 'Business organization and the public accountant', Prof. B. J. S. Wimble, C.A.(S.A.), F.S.A.A. (South Africa), presided.

The vice-chairmen were Mr Eric Orreby (Sweden), Mr B. S. W. O'Connell, F.C.A., F.S.A.A. (South Rhodesia), and Mr Juan Oscar Schmidt Pizzaro (Peru); and the members of the panel were: Mr H. Reinoud (Nederlands Instituut van Accountants), *discussion leader*; Mr F. M. Richard (Compagnie Nationale des Experts-Comptables, France), *rapporteur and author of a paper*; Mr S. C. Bakkenist, EC. DRS. (Nederlands Instituut van Accountants), *author of a paper*; Mr J. E. Harris, B.COM., F.A.C.C.A. (The Association of Certified and Corporate Accountants, U.K.), *author of a paper*; Mr Svante Kihlman, EKON. MAG. (Föreningen C.G.R., Finland), *author of a paper*; Mr G. L. Phillippe (Controllers Institute of America), *author of a paper*; Mr R. Keith Yorston, F.C.A.(AUST.) (The Institute of Chartered Accountants in Australia), and Mr Shalom Proshan (Association of Certified Public Accountants in Israel).

RAPPORTEUR'S SUMMARY

The rapporteur, Mr F. M. Richard, delivered his summary of the papers as follows:

In order to treat this very wide subject under its various aspects, the following considerations were suggested to the authors of the papers:

- (a) The importance of business organization for the accountant in his capacity as an auditor.
- (b) The organization of a business as a subject of evaluation and audit.
- (c) The public accountant as an adviser on the subject of organization in so far as this is part of his regular duties as an auditor ('derived' consulting activities).
- (d) If the public accountant is concerning himself intensively with the organization of the accounting and record keeping system and/or with the rest of the

organization will this endanger his objectiveness in the performance of his auditing function with the same enterprise?

- (e) The public accountant as an independent adviser on organization.
- (f) The influence of the size of the enterprise.

One cannot fail to be impressed by the opinions of several speakers on the growing importance of management accounting, using new techniques derived from financial accounting but aiming at different targets and following its proper standards.

Almost unanimously the speakers call the attention of the practitioners to the responsibilities of public accountants accepting missions of organization, consultancy, or controllership, never to be confused with the responsibilities of the auditor.

Mr Svante Kihlman, from Finland, has said:

'The public accountant, with his knowledge and his experience, should endeavour to help the enterprise to improve its business organization. But it perhaps should be stressed, that this should not lead to the result that the accountant loses sight of his specific task, to audit.

'The attitude of accountants has also changed in accordance therewith.

'The business world's attitude is in agreement: it expects that the accountant shall be an adviser to a much larger extent than previously. In particular small enterprises which have not qualified employees, have great need of help and they often choose auditors especially with the thought of having a good adviser in respect of their business organization.'

In Mr Kihlman's opinion, the extent of advice given by the public accountant is limited by his competence and his objectivity as auditor. He continues:

'No one expects the accountant to be an expert within all sections of business organization and the accountant should strictly refrain from giving advice on questions, for the judgment of which he has not the necessary ability. The accountant has thus, from case



At Tuesday afternoon's session on the 'Verification of the existence of assets', at which Mr G. F. Klingner, F.C.A., President of the Irish Institute, was chairman. Sir Richard Yeabsley, President of The Society of Incorporated Accountants, a panel member and author of a paper, is third from the right. The rapporteur, Mr J. A. de Lalanne, President of The Canadian Institute of Chartered Accountants, is seen reading his summary

to case, by exercising the necessary self criticism, carefully to consider, whether he can actually find himself competent to give advice.

'One can be apprehensive that an accountant may feel himself bound by the advice he gives, and withhold himself from commenting upon faults in the organization which have arisen by the enterprise following it.'

In the opinion of Mr J. E. Harris, from England:

'The present statutory audit function of the public accountant should remain carefully segregated from any other service he may render his clients. Whilst I believe that the organization of a business is a subject for evaluation, nevertheless I do not think that it should be included as part of a statutory audit. Finally, although I acknowledge the pre-eminence of skill of the specialist I believe that the accounting profession through the public practising accountant can make increasingly valuable contribution to the industrial and commercial world. The present generation has seen the start of a development which I hope and believe will continue.'

Mr Harris thinks:

'It is vital to maintain as a separate and distinct function the work of the public accountant in his capacity as auditor from work which is either voluntary on his part or requested of him in extension of that necessitated by the audit', and that:

'The public accountant in his capacity as auditor is called upon to report on what has happened and not to give advice or to say what might have happened if an alternative set of circumstances had been in existence.'

The separation of the function as auditor from the mission as consultant being clearly defined and strongly emphasized, and the possible extension of the function of the accounting profession examined, Mr Harris states:

'There has been, however, in my country a further development whereby some of the larger firms of public accountants have set up within their organizations departments which specialize in what has become known as management consulting.'

'The Public Accountant's Independence'

Mr G. L. Phillippe, from the United States, brings his experience with one of the biggest American corporations. He has said:

'This company has a galaxy of top accounting talent, a well developed internal audit programme and a staff capable of solving our accounting problems. What use then have we for public accountants? What service can the public accountant perform for us that cannot be performed equally well by our own organization? The first thing that the public accountant can and does contribute is "independence".'

Mr Phillippe recognizes that:

'Their background of experience give us a valued test of the procedures and recommendations our own staff has developed. Other times we are merely seeking someone who understands our business and background with whom we can talk over our problems. I know that our public accountant's viewpoint and mature judgment has been of great personal benefit and reassurance to me.'

Mr Bakkenist, from Holland, in his paper, gives a very comprehensive and complete survey of the development of the function of the public accountant in this country:

'The knowledge and experience which the accountant acquires for and through the exercise of his profession make him into an expert in the field of business economics, business organization and auditing. Thus, it was possible for the accountant to become a *business consultant of the management*. This consulting function is, however, always exercised as an additional function to the audit task. It is an almost logical outcome of this work.'

'Especially as a result of the growth of the enterprises the need for tools in the hands of the management for the purpose of managing has become imperative. An effective system of accounting and record-keeping has proved to be one of the most valuable tools for this, which, however, does not imply that in the greater part of the Netherlands, enterprises where an organization of this kind might be expected, this up-to-date organization actually does exist already.'

Mr Bakkenist concludes his paper with the following comment:

'There is in the Netherlands a great shortage of good consultants in the field of organizational and management problems in proportion to the potential need. Up to this moment there is no official training course for this free profession either in the universities or in the commercial colleges. The consultants that are practising at the present moment are all self-made men.'

University Course in Business Consultancy

'Preparations by the Netherlands universities for the establishment of a course for business consultants are in an advanced stage. In 1953, a Royal Commission, especially established for this purpose, had published a report on this course. Not only the government, business and the universities are interested in this question, but also the accountants.'

In France, the same problems of evolution in business have brought the public accountant to take a keen interest in management accounting.

'It seems possible in the near future that French public accountants in a greater number will be attracted by controllership. As such, the public accountant will be consulted to organize the control department and their methods and supervise their efficiency.'

'Large firms will seek the skill, experience and independence of the public accountant to organize their control and budget departments, or to evaluate their existing departments in comparison with others'

'Medium-size firms will ask from the public accountant, the creation and setting up of: forecasting, planning, budgeting, control, the appraisal of their overall organization.'

'The public accountant will either specialize in controllership or will enter into partnership with specialized practitioners in order to meet the needs of industry, but their basic education will remain public accountancy.'

'As to ethics, the rules of professional conduct of the existing bodies of public accountants will be applicable to the new tasks assigned to and accepted by the public accountants in the field of controllership. It implies, therefore, that public accountants will accept such missions only if they feel fully qualified, either personally or in co-operation with qualified colleagues.'

DISCUSSION

In the discussion that followed the rapporteur's summary of the papers, Mr J. E. Harris (United Kingdom) first of all examined the question of whether the public accountant was qualified to organize management accounting. He felt that as accountancy training was heavily biased in the direction of *financial* accounting, and as, moreover, management accounting required a different outlook and psychological approach, the public accountant was not necessarily qualified to advise on the latter. On the other hand, the smaller concern could not afford the services of a specialist and the public accountant was, as yet, the best adviser available to such a concern. As the importance of management accounting would continue to increase, he felt it was imperative that public accountants should keep pace with developments.

Mr S. C. Bakkenist (Netherlands) felt, however, that management accounting fell within the competence of the public accountant who had to assist his clients to the best of his abilities.

Mr R. Keith Yorston (Australia) pleaded for a widening of training methods to equip public accountants for management accounting. He also felt that the distinction between financial and management accounting was overdone.

The next question was whether the public accountant had to evaluate management accounting in the cause of his audit. Could the efficiency of the accounting organization be appraised?

Mr Yorston felt that as management accounting became part of the internal control the auditor must make use of it. Mr Harris stressed that the public accountant can get a bird's-eye view on whether the accounting organization produced information quickly, accurately, and cheaply. Mr G. L. Phillippe (U.S.A.) thought that the answer must depend on the size of the undertaking; in large organizations this was definitely a special assignment. Nothing must detract from the effectiveness of the audit, but informal comments are always welcome. Mr S. Proshan (Israel) felt that the public accountant should restrict himself (a) to watching minimum requirements, (b) to advising *when* experts should be called in. Mr Bakkenist disagreed: he felt optimum, not minimum requirements needed watching. He even felt that the accountant must familiarize himself with specialized techniques such as time and motion study, but in large organizations

he may agree to a division of scope with internal departments.

Discussion then turned on to whether the auditor should assess the efficiency of the non-accounting organization. Mr Harris felt that this was a responsibility of the directors, and responsibility and power should not be divorced. Financial results eventually told the story. The auditor may give his views to the management but he should not appear to issue directives. The French, Australian, and United States views supported Mr Harris. Mr Phillippe thought that 'a little knowledge was a dangerous thing'.

These views having been expressed, Mr S. Kihlman (Finland) valiantly defended the legal requirements in Sweden and Finland that compelled the auditor to give an opinion of the business organization of his client.

Mr Harris suggested that for *that* task he would require the combined salaries of the chairman and board of directors. Mr Yorston said he was not now surprised that two or more auditors were needed in Sweden, and hoped that the Finnish Companies' Act would never be translated into English. Mr Kihlman emphasized that in his opinion the auditor must not interfere unless there is illegality, neglect of duty, or a conflict between the self-interest of the managers and the interests of the shareholders.

On the next question whether the auditor was, or could become, qualified to advise on *industrial* organization, there was a consensus of opinion that he could not so advise unless he surrounded himself by specialists. The fact that non-accountants could not become partners in accounting firms was everywhere a serious obstacle to the setting up of management consulting departments.

Mr Phillippe recounted how his company had set up their own consulting department to make recommendations to functional managers. They welcomed advice from public accountants, but only on accounting matters. The last point was the position of the public accountant with regard to electronic data processing. Again Mr Harris thought that specialization was necessary; Mr Bakkenist felt that re-thinking of problems was needed; and Mr Phillippe contributed some personal experiences and his conception of the future — one of managers sitting in front of television sets and pressing a button to get the financial position to the very minute.

THE INTERNAL AUDITOR

Mr F. C. J. Busch (Germany) presided at the session which discussed 'The internal auditor'.

The vice-chairmen were Mr G. H. L. Davies, B.COM., F.P.A.N.Z., F.S.A.A. (New Zealand); Mr Frederico Rioseco (Mexico), and Mr C. J. Idman (Finland), and the members of the panel were: Mr B. Smallpeice, B.COM., A.C.A. (The Institute of Chartered Accountants in England and Wales), *discussion leader*; Mr W. A. Walker, C.P.A. (Controllers Institute of America), *rapporteur and author of a paper*; Mr R. A. Irish, F.C.A.(AUST.) (The Institute of Chartered Accountants in Australia), *author of a paper*; Mr L. G. Macpherson, F.C.A.(CANADA) (Canadian Institute of Chartered Accountants), *author of a paper*; Mr Ernest Sinnott, F.I.M.T.A., F.S.A.A. (The Institute of Municipal Treasurers and Accountants, U.K.), *author of a paper*;

Mr W. N. A. F. H. Stokvis (Nederlands Instituut van Accountants), *author of a paper*; Mr W. R. Davies (The Institute of Internal Auditors, U.S.A.), and Mr Børge Hansen (Foreningen af Statsautoriserede Revisorer, Denmark).

RAPPORTEUR'S SUMMARY

In the course of his summary, the rapporteur, Mr W. A. Walker, delivered his summary of the papers as follows:

In preparing this summary I was privileged to compare my own thoughts and experiences with those of four gentlemen who obviously had given considerable study to the subject at hand. They are Mr W. N. A. F. H. Stokvis, of the Netherlands, Mr R. A.

Irish, of Australia, Mr Ernest Sinnott, of England, and Mr L. G. MacPherson of Canada.

Such a comparison brought home to me the realization that internal auditing, the youngest branch of the accounting profession, is growing up, although it has yet to reach the state of stabilization of scope, standards, and procedures attained by the public accounting profession.

It was encouraging to find that the papers presented seemed in general agreement on a number of points.

However, I admit to some disappointment that there seems still to exist a considerable difference in viewpoint on the more fundamental concepts of the functioning of the internal auditor.

For example: Normally, audits by public accountants involve principally the verification of assets and liabilities as of a certain date and such analysis of the income statement as will enable certification that they are properly stated. In other words, the public accountant establishes the accuracy of accounts, while I have always held that the internal auditor's approach is by department or function to establish that good business practices and controls are in effect. Thus, the work of the two need not conflict because basic approach and emphasis are different.

Unfortunately, contemporary literature on auditing has been concentrated largely on the viewpoint of the public accountant. Indeed many articles, purporting to address themselves to the subject of internal auditing, actually have been more applicable to the work of the public accountants. This has been true because many auditors, whose experience has been in public accounting, found themselves commissioned by their companies to establish internal audit programmes, and in the absence of adequate data on the concepts of internal auditing have not eliminated the duties of the public accountant from their programmes.

In fact, some internal auditors have cited as an accomplishment the fact that the work performed by their staff reduced the fee of the public accountant. It is my belief that such an assertion is a definite indication of a lack of appreciation of the scope and responsibilities of the internal auditor.

Verification Work

Of course, in the coverage of his proper function, the internal auditor will perform a certain amount of verification work – not as an end, but as a means to an end – and such coverage may reduce the detail work of the public accountant necessary to satisfy the existence of adequate internal control. Mr Sinnott seemed to be in accord with this latter concept.

But this basic concept seems not to be completely shared by several of the other gentlemen. One stated:

'An effective internal audit will assist the external auditor, especially in minimizing his examination and review of ordinary operations and transaction detail, and to some extent in the balance sheet verifications.'

Another indicated the internal auditor should be required to give his expert opinion on the financial statements and should undertake a programme covering, as a minimum, all the procedures deemed essential by the public accountant. He further stated that in order to give his opinion on the internal accounts, the internal auditor will have to cover all fields of activities in his audit, and that there must be a rational division of duties between the external and internal auditor to avoid duplication.

In connection with that same thought, I find myself agreeing whole-heartedly with Mr Irish, and hoping that he is right, when he says that internal auditing was first an adjunct to the outside audit but it

'has come to be appreciated, however, that internal audit can provide a constructive as well as a protective service, an advance in thought which lifts the functions far above mere clerical routine. The internal auditor thus acts on management's behalf to sift the detail of daily operation efficiency and so identify those features needing executive review, judgment and decision'.

Another facet of the problem about which there seems to be a rather wide diversity of opinion is in connection with the broad subject of the internal auditor's status in the company. Generally it seemed to be felt that the auditing approach must be harmonious with the viewpoint of management, and a majority seemed to agree that as long as the programme has the support of the chief administrative officer or body, the function can report to any member of management under whom the total programme can work efficiently. However, one view was expressed that if the auditor's findings give rise to any comment on top management's activities, he should be able to report direct to the president and to any or all of the managing directors, thus ensuring that his position has the greatest possible independence. Another view was that he must be accountable only to the highest strata of management.

Universal Agreement

However, this difference in views may be apparent rather than real, for through it all I gather the impression that there would be universal agreement with the following principle: The internal auditor should try to arrive at the facts and, after careful consideration, present these facts in such a manner that, even though they may be in conflict with present company policies or thinking, they will be accepted and given the consideration due them.

Among those who touched on the problem there was quite a wide difference in view as to whether the audit department should be considered as a training ground for accounting personnel. One view is that it should not, as they might be afraid of stepping on the toes of executives who might some day be their superiors. The other view expressed was that men in the audit department get a complete education as to the company's policies and how these policies tie together for a smoothly operating business. Accordingly, it should be the ambition of the audit supervisor to be constantly losing his best men to other departments of the business where training of this type is needed to fill executive positions. It was contended that not only would this tend to create an organization of men with broad vision, but it would enable the audit staff to maintain a staff of men of the calibre needed to do the job at hand because they know that opportunity exists for those whose work is well done.

'Management' Audits

In connection with the so-called 'management' types of audit, some concern was expressed that adequately qualified men would not be available, as it would take a 'superman' to give advice on every business activity. My own experience indicates that this is a problem which must be recognized; but that if it is so recognized and handled with common sense, the 'management' type of audit can be most

beneficial. Each auditor must remember that he is not an industrial engineer, a metallurgist, an industrial relations expert, or the president of the company. Few practices have got the auditor into more hot water, and justifiably so, than that of pretending to know more about the technical phase of a subject than the technician himself. The auditor must try to arrive at a delicate balance which permits him to examine the facts and to render help in any department having a bearing on the financial status of the corporation while, at the same time, confining himself to those matters on which he can give sound opinions. An auditor is essentially a fact-finding examiner, and the judgment should be left to the appropriate management group.

In ending this summary, I felt I could do no better than state the conclusion with which Mr Irish ended his paper quoting:

'The size and spread of activity in so many businesses have led the external auditor more and more away from the old form of detailed audit. His attentions go more to matters of policy and principle and I foresee this becoming firmly implanted as his true role. Such a development is only possible if there is a marriage of internal audit functions which will take care of detailed accuracy and protection against staff dishonesty, but the internal auditor will have a continually expanding future as management appreciates that he, out of all executives, is best equipped to audit for management. It is a brilliant future, attainable if deserved.'

DISCUSSION

Opening the discussion, the discussion leader, Mr Basil Smallpeice, A.C.A. (United Kingdom), suggested that he might be regarded as the managing director of a company employing about 10,000 people, who was considering appointing an internal auditor and now had the unique opportunity of consulting the gentlemen on the platform, who were experts on this subject.

The first question was: What would be the scope of the function of the internal auditor?

Mr W. R. Davies (U.S.A.) quoted the statement issued by the American Institute of Internal Auditors. This states that internal auditing is a staff function, having no direct authority over other functions. It is a basis for protective and constructive service to management, dealing primarily with accounting and financial matters, but also with matters of an operating nature. The overall objective is to assist management in the effective discharge of its responsibility.

Mr Stokvis (Netherlands) maintained that the internal auditor's function should primarily be a protective one. He was of the opinion that internal audit is an essential element in the organization. The constructive function will be based on the specific knowledge acquired in the performance of the protective function.

Mr Macpherson (Canada) was afraid that the internal auditor with the constructive viewpoint would be tempted to go too far into the operational aspects.

As to the status of the internal auditor there seemed to be general agreement that he should be a man with a psychological feeling for independence and that he must be very high in the hierarchy of management.

Regarding his relationship with the public accountant, Mr Hansen (Denmark) stated that the internal auditor is an employee of the company, whereas the public accountant is appointed by the shareholders and is also responsible to third parties. To a certain extent they have a common task and there should be sufficient co-ordination so as to avoid unnecessary duplication of work.

Mr Irish (Australia) believed that the public accountant, when drawing up his programme, should consider the internal audit as complementary to the internal control. The public accountant is not responsible for the short-comings of the internal auditor, though he may have to fill the gap.

To a question from the audience, at what stage in the growth of the business an internal auditor would be required, Mr Irish answered that a yardstick would be the volume of transactions and/or the number of employees.

As to the question whether the internal auditor should be a member of a recognized body, it was said that this might be useful as a guarantee for his professional abilities.

Another question was whether there is a yardstick by which the value of the service of internal auditing could be measured. Mr Sinnott (United Kingdom) answered that one cannot measure the usefulness of fire brigades by the number of calls which have been made. The value of the internal auditor is to be found in his continuous appraisal of figures and systems.

Mr Smallpeice did not relish his task of summing up the discussions, since there seemed to be considerable differences in viewpoints on fundamental aspects. Notwithstanding these conflicting views, however, it might be concluded that the internal auditor's function is basically a protective one, and beyond that there should be a constructive approach. He should not try to embrace everything because then he would be the managing director. As to his status, there seemed to be agreement that he must have substantial weight in the organization so that his opinions were taken into account.

The President, Mr Busch, concluding, stated that in all the diversity of opinions one thing seemed to be certain: that the internal audit function is of the utmost importance, both for management and for the public accountant.

A Wide Selection of Tours on Thursday

Thursday's activities were of a non-professional nature, the delegates and their ladies having a wide selection of excellent tours to choose from during the morning and afternoon. In the evening, at the invitation of the Netherlands Government, the Minister of Economic Affairs and the Secretary of State of Economic Affairs received a number of delegates in the Rijksmuseum.

The rather inclement weather did not hamper the tours which began in the Museum Square in Amster-

dam. One of the most popular was that to the Hague, the seat of Government in the Netherlands. The party later proceeded to Scheveningen, one of Holland's most fashionable resorts.

On the Rotterdam tour, the coach followed the highway to Utrecht, one of the most modern roads in Europe and one which aroused some slight feelings of envy in the United Kingdom delegates! In Rotterdam, the party went for a trip by launch through the

harbour and on to lunch at the Bellevue Restaurant. Although the centre of the city was largely destroyed during the war, the greater part has already been rebuilt and members and their ladies saw many fine examples of modern Dutch architecture.

Another party visited the Kröller-Müller State Museum in the national park De Hoge Veluwe, the largest nature reserve in the Netherlands. In the museum, the delegates saw a fine collection of the works of Van Gogh.

A further party, after visiting Aalsmeer, well known for its flowers, went on to the Westland district west

of Gouda, the centre of fruit and vegetable growing.

A most impressive tour was that to the enclosing dyke. After crossing Amsterdam harbour by ferry, the party drove through typical Dutch countryside of flat meadowland. After Monnikendam, the scene changed to one of grain-fields extending from horizon to horizon. This area - formerly sea - is now one of the best grain producing regions in Holland.

Other interesting visits were to the Netherlands open-air museum in Arnhem and to the aviary in Alphen aan den Rijn to which delegates and their ladies travelled by boat from Amsterdam.

H.M. QUEEN JULIANA RECEIVES DELEGATES



A feature of the Congress was the keen interest which was taken in its proceedings by the Royal House of the Netherlands; not only did H.R.H. Prince Bernhard attend the opening session and the delegates dinner, but Her Majesty Queen Juliana graciously received a party of delegates, representative of all nationalities, at Soestdijk Palace on Thursday afternoon.

The photograph above shows Her Majesty with some of those who were privileged to be present. Mr Kraayenhof,

President of the Congress, is at the extreme right of the front row; Sir Richard Yeabsley, President of The Society of Incorporated Accountants, is third from the left in the second row; immediately above Sir Richard is Mr G. F. Klingner, President of the Irish Institute, while above and slightly to the left of Mr Klingner, is Mr W. H. Lawson, President of The Institute of Chartered Accountants in England and Wales. Mr A. S. MacIver, Secretary of the Institute, may be seen to the left of Mr Lawson.

ASCERTAINMENT OF PROFIT IN BUSINESS

Mr A. Veyrenc (France) presided at the session which discussed 'Ascertainment of profit in business'.

The vice-chairmen were Mr R. Gerbès (Luxembourg), Mr G. E. Fitzgerald, B.A., B.COM., F.A.S.A., F.C.I.S. (Australia), and Mr Rahim Jan (Pakistan); and the members of the panel were: Mr Weldon Powell, C.P.A. (American Institute of Certified Public Accountants), *discussion leader*; Mr G. L. Groeneveld, EC. DRS. (Nederlands Instituut van Accountants), *rapporteur and author of a paper*; Mr Ira N. Frisbee, C.P.A. (American Institute of Certified Public Accountants), *author of a paper*; Prof. Palle Hansen (Foreningen af Statsautoriserede Revisorer, Denmark), *author of a paper*; Mr C. I. R. Hutton, B.A.(OXON.), C.A. (The Institute of Chartered Accountants of Scotland), *author of a paper*; Prof. Dr Leopold L. Illetschko (Kammer der Wirtschaftstreuhänder, Austria), *author of a paper*; Mr Emile Mangal (Collège National des Experts-Comptables de Belgique), *author of a paper*; Mr Helge Braende (Norges Statsautoriserede Revisorer Forening); Mr Börje Forsström (Föreningen C.G.R., Finland); and Prof. Dr Karl Kafer (Verband Schweizerischer Bücherexperten).

RAPPORTEUR'S SUMMARY

The rapporteur, Mr Groeneveld, delivered his summary of the papers in the course of which he said:

When the Netherlands economist, N. G. Pierson, in his *Principles of Political Economy*, of 1896, speaks about business profits, he begins his expositions with the remark that the word 'profit' has no definite meaning in the language of daily life, and that at one time it contains much, and at another time little.

In this respect not much has changed in the six decennia which have elapsed since then. If we may draw a general conclusion from the papers it is that there is still little uniformity about the conception of profit. This is the more regrettable where there is no difference of opinion as to the importance of the problem of profit-determination.

The meditations of more than a half-century, the progress of economic science, the specialization of the knowledge on internal and industrial economics, none of these has brought a generally accepted view on the conception of profit, nor even an acceptable diversity of opinions. Rather, we can characterize the impression we get from the international review of opinions as kaleidoscopic.

I am going to try now to draw in the pattern of the various conceptions. I will begin with those authors who have taken us with them on a wide flight of thinking to the farthest ideas on profit determination.

Prof. Palle Hansen, of Denmark, tries to base his concept of profit on the general economic theory, especially on the theory of utility, which says that the productive goods derive their value from the goods of lower order. In this way he states that the value of capital goods is determined by the discounted value of their future yields. Only on this basis can the true capital value of an enterprise or of the individual assets be determined and can be given a definition of economically true profit. The ideal profit then is defined as the interest of the capital value of the asset, the latter being determined by the future yields.

It is then not difficult for Prof. Hansen to demon-

strate that the conventional principles of business and accountants are not in harmony with his thesis. As nothing was paid for the components of the future which determine the value for the balance sheet, they cannot be evaluated according to accounting conventions; in other words the valuation of traditional accounting does not or hardly takes into account the projection of the future. In the opinion of Prof. Hansen there is the necessity of a choice between conventional and economic determination of profit.

In addition, Prof. Hansen spoke about the problems in writing annual accounting reports. In this matter also, the accountant must anticipate the future: 'In all his work the accountant must turn from the past to the future.' Although Prof. Hansen personally does not take sides as to the 'economically inspired accounting report', his sympathies go definitely in this direction.

Contrary to the outlook of Prof. Hansen, the conception of Prof. Illetschko, of Austria, reaches back to the past. In order to get a solid base for the periodical profit, the author takes as points of contact the concepts of liquidation profit and total profit. This he does in such a way that he converts the periodical profit by means of a fictitious liquidation into a total profit. The periodical profit is then a formal accounting concept, which is bound to those components which can be expressed in terms of money.

Profits and Purchasing Power

The prices actually paid have as a disadvantage that they do not recognize the changes in purchasing power. Therefore the profits contain a factor of distortion which can only be eliminated when the estimated sales prices of the fictitious liquidation are also based on the cost prices of the existing assets. When the fluctuations in purchasing power are important and of long-run structure, the formal accounting concept of profit would become very unrealistic. 'In this respect, fluctuations in purchasing power', says Prof. Illetschko, 'are more important than cyclical fluctuations, for the distortion of the cyclical fluctuations can be eliminated by valuation at the unilateral lower value rule.'

The adaption to the changes in purchasing power, however, asks for a subjective division of the profits in two parts of distributable and non-distributable profits. Furthermore, the length of period for which business profit is to be computed is of importance. The shorter the period, the lesser the influence of the distorting factors. Therefore we can use current prices in the short-term operating accounts. Prof. Illetschko looks upon the short-term operating accounts and the yearly profit and loss accounts as two different instruments. The short-term operating account is based on calculatory cost accounting and on current prices and has an instrumental function for management. On the contrary, the periodic ascertainment of business profits is based on the documentary book-keeping wherein the formal accounts register the historical prices, under application of the lower-value rule.

While the conclusion of Prof. Hansen was that he is at complete variance with the generally accepted accounting principles, Prof. Illetschko is in agreement

with the international conventions. Apart from these conceptions, which are in principle based either on the future or on the past, we can distinguish the standpoint whereby the authors take into account the changes in value of the means of production, so that they draw attention to the present value of the assets.

Mr C. I. R. Hutton (United Kingdom) has no definite opinion in this respect. On several occasions in his paper it is clear that the author objects to maintaining the historical cost price in an inflatory period, especially in connection with the possibility that the proprietor would come to false conclusions. Above all, Mr Hutton refers to the danger that politicians and trade unionists will ignore the amounts that must be set aside in order to maintain the continuity of the business, now that these amounts are shown as appropriation of profit. Mr Hutton does not attempt, as he says, either to apportion the blame or to suggest a solution, but leads us to a quotation of 'How long halt ye between two opinions?'

'Spendable Income'

In the paper of Mr I. N. Frisbee (U.S.A.) a more pronounced standpoint is taken. The author states that the investor will know, not only at the moment of liquidation but also during the lifetime of the business, that his dividend is really 'spendable income' and not a part of his original investment. Economic profit should be recognized as such by the corporate official and therefore a measurement of the effect of price increases upon the capital requirements of the enterprise is required. The author clearly states that the earned surplus may be necessary to replace the assets sold or consumed, that is, to continue the same volume of operations. Investors and managers should be interested more in economic profit than in monetary profit. In order to eliminate the effects of fluctuating price levels in the ascertainment of profits, Mr Frisbee sees more advantages in the application of the adjusted historical cost than in the method of replacement cost. This adjustment of the historical cost will probably be accomplished in a better way by using an index, which measures the general level of prices, than by using indexes which measure price changes in specific commodities. In this way he maintains that the principle of original cost endures, but that the measurement of original cost is done at current dollars rather than at out-of-date dollars.

This would not be in accordance with the generally accepted accounting principles. The difficulties encountered in reaching only one logical result in deciding each problem of business profits, have in the U.S.A. resulted in recognition of the concept of generally accepted accounting principles in preference to adherence to economic concepts of profits or even sound or logical principles. Fortunately, the accepted principles are not immutable; they have evolved from the economic thinking of men.

A pronounced plea for ascertainment of profits on the basis of valuation of the means of production at the value of the moment is only found in my paper. With Prof. Hansen, I stand for co-ordination with the valuation along the principles of social economics. So I, too, base my view on the fundamental principle that the value of the goods is determined by their yields of utility. However, this principle has an extension in social economics for those goods which

are a means of production. It says that their value depends on the (lower) value of the goods which must be withdrawn from a satisfying of wants in another direction, in order to continue the satisfying of wants in question. This principle of substitution leads – *mutatis mutandis* applied in the value of the means of production in the individual enterprise – to a valuation in the lowest of value in utility and replacement value.

In my paper this alternative valuation is for simplicity brought forward as a valuation at replacement value, because normally this value is the lowest of the two in the continuity of production. I did not make a choice between several methods of profit ascertainment, but I accepted the theory of replacement value in its full significance.

However, when one works out the principle of replacement value, it appears that such purposes as I have just summed up come within the possibilities of realization. Then it appears that for the management of the enterprise the application of the theory of replacement value leads to a sound business policy. These applications lie in the field of cost calculation, price policy, financing, profit determination and profit appropriation. Finally I showed in my paper – however shortly – that then uniformity is reached between the fields of cost accounting, movements of stocks, profit calculations on the long and short run, profit analyses and judgments on efficiency. How this application finds its repercussion in the administrative accounting was briefly pointed out.

Until now I have limited this summary to what was said in the papers on the fundamentals of profit and its ascertainment; this was really the important part of most papers. As per the intentions of the Congress Committee, some other interesting points should have been talked about, such as the valuation of the consumed work units of plant and equipment and raw materials, and also the problems of latent contingencies to which belong the provisions for profit taxes. However, it appeared that the prescribed limited scope of the papers did not admit a discussion of these themes.

Economic and Fiscal Profit should Harmonize

It has been said that economic and fiscal profit ought to harmonize, if the condition be fulfilled that business is taxed according to what really was profit. I gave in my paper some attention to the reasonableness of the view that the levying of taxes to income and profit is a separate problem than profit calculation in business.

According to the paper of Mr Frisbee, there is in the U.S.A. no great accordance between economic and taxable profit. In some respects he thinks the divergence is so great that one can scarcely justify the use of the term 'profit' in both instances. The high tariffs justify that business men are especially interested in taxable profits, but too often the fact is overlooked that the taxable profit cannot be used for reporting the financial results. However, it must be said that even if the taxation of business profit, which has been ascertained according to current concepts of generally accepted accounting principles, would not prevent the partial confiscation of economic wealth. Accepted principles today fail to require adjustments for changing price levels in periods of inflation.

A similar reproach is made by Mr Hutton to British accountancy. He is not unsatisfied as to the

rather more generous allowances of the Inland Revenue for depreciation of machinery and plant, but it seems to me that Mr Hutton's conclusion that the accountants cannot reasonably expect the Revenue to pioneer the field of reform, as long as there is anything basically wrong with the methods by which we ascertain our business profits is not only applicable to the British accountant.

DISCUSSION

The discussion between the members of the panel which followed concentrated upon the possibility of equalizing profits (income) and the reconciliation of 'economic' with 'fiscal' profits. The members appeared to be against attempts to equalize profits, natural perhaps in the eyes of a prudent business man, but tending to distort true profit and sometimes open to abuse.

It was felt that the use of secret reserves was dangerous besides raising the problem of their disposal

when no longer required. Mr P. Livingstone Armstrong, F.C.A. (United Kingdom) – called to the platform – questioned whether profits today were in fact high enough and declared that accountants have a public duty to perform – and should take the lead – in bringing out the facts relating to the insidious effect which inflation – reinforced by Government interference in business and the heavy burden of taxation – has on profits, savings, initiative and enterprise.

As to a reconciliation of economic profits with fiscal profits, the general impression was that such a marriage was incompatible and that the accountant should not allow the tax authorities to interfere with his conception of what a true and fair profit should be.

A striking plea was made by Mr J. S. Seidman, C.P.A. (U.S.A.), from amongst those present, who maintained that the record of history was of far more worth than the economic theory of profit, which, he surmised, should have no place in the accountant's report.

THE CLOSING SESSION

At the closing session, which was held in the Grand Hall of the Concertgebouw, the President, Mr J. Kraayenhof, gave a general review of the Congress and thanked all those who had contributed to its success; he made special reference to the untiring work of Mr A. L. de Bruyne, the Congress Secretary, and his staff.

Professor A. Goudekot gave a brief account of the organization of the business sessions, whilst Mr H. C. Treffers and Mr R. Besançon reviewed, respectively, the organization of the social events and the publicity.

Mr James A. de Lalanne (Canada) expressed the thanks of all participants to the Congress Committee and the two sponsoring bodies. Other speakers were Mr Suraj Prakash Chopra (India), Dr J. Viel (Switzerland) and Professor G. Sensini (Italy).

In his speech Mr de Lalanne said:

I have been asked by our colleagues to attempt to

express our feelings at this time as we are about to return to our homes – some far, some near – after this very pleasant visit to Amsterdam.

As President of the Canadian Institute I am very happy and proud to be entrusted with this task as Canada and Holland have had most friendly associations and many mutual interests in all walks of life for a very long time.

First, may I acknowledge the honour conferred on the leaders of the various delegations and others when they were received so graciously yesterday afternoon by Her Majesty the Queen.

Secondly – It was very gratifying to us all to note the high esteem in which your Institutes – and our profession as a whole – are held in this country as evidenced by the gracious presence of His Royal Highness, The Prince of the Netherlands, and members of the Government, at our opening session



Mr W. H. Lawson, C.B.E., M.A., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mrs Lawson, with Mr James Borsay, F.C.W.A., President of The Institute of Cost and Works Accountants, before the luncheon given by Mr Borsay on Friday.

and at that delightful dinner on Tuesday evening.

Much has already been said by others in praise of the astounding energy and skill with which the Congress Committee and its supporting secretariat have planned and organized this gathering and I shall not attempt to go over the ground again. The dispatch, tact and courteous manner in which negotiations and correspondence – in a score of languages – were conducted with the 140 member organizations in forty widely separated countries and with all those participating in the technical sessions has been little short of amazing.

The physical arrangements for our accommodation and our various needs and for the technical session must have produced innumerable complications – all of which have been dealt with in your very efficient manner.

I am sure that our ladies would wish me to express

their sincere appreciation for the most interesting programme provided for them and for the many courtesies extended by the President and members of the Ladies Committee.

And so, with that preamble and on behalf of all the visitors and members of their families it is my honour and privilege to convey to you, Mr President, to your Vice-President and to all members of the sponsoring bodies, our heartiest congratulations with sincere appreciation of the magnificent contribution which you have added to the advancement of our profession throughout the world by your able and conscientious promotion and conduct of this Seventh International Congress of Accountants 1957, and our many thanks for the innumerable courtesies extended to us – all of which cannot help but engender even better understanding and co-operation between the nations represented at this gathering.

SOCIAL EVENTS

COCKTAIL PARTY AND RECEPTION

On Monday evening, Dr A. Th. de Lange, Vice-President of the Nederlands Instituut van Accountants, and Mr J. G. de Weger, EC., DRS., President of the Vereniging van Academisch Gevormde Accountants, gave a cocktail party in the *Hotel Krasnapolsky* for delegates and their ladies.

The cocktail party was followed later in the evening by a reception in the splendidly decorated Grand Hall of the Concertgebouw where the President of the Congress, Mr J. Kraayenhof, and the Vice-President, Professor A. M. van Rietschoten and their ladies received the guests; there were over 2,300 people present. In the small hall, members and their ladies saw a film show, while in other halls of the Concertgebouw there was dancing which continued until after midnight.

CONCERT

At the invitation of the Burgomaster and Aldermen of Amsterdam, delegates and their ladies attended a concert in the Concertgebouw on Wednesday evening, given by the Concertgebouw Orchestra under its conductor Eduard van Beinum.

The first half of the programme consisted of *Symphony No. 6 in C*, by Schubert, and Mozart's *Piano Concerto in G major* (K.453) in which the soloist was Hans Henkemans, a leading Dutch pianist and composer. After the interval the programme continued with Wilhem Pijper's *Third Symphony*. Pijper, who died in 1947, was probably the most important of modern Dutch composers and this powerful work was dedicated to a former conductor of the Concertgebouw Orchestra – Pierre Monteux. The concert ended with a fine performance of Stravinsky's *Firebird Suite*.

LADIES' PROGRAMME

The ladies' programme began on Tuesday, with visits to the Rijksmuseum, where among a very fine collection of Dutch paintings Rembrandt's 'The Night Watch' was much admired. During the afternoon there was a choice of visits either to Asscher's Diamond Company of Amsterdam or to the Amstel Brewery.

On Wednesday fashion shows were given in *The Victoria Hotel*, Amsterdam, and *The Hotel Bouwes*,

Zandvoort; while on Friday the ladies were able to attend a flower auction in Aalsmeer.

A TRIP THROUGH THE CANALS

A fine, clear evening followed a rainy and windy day on Tuesday and the prearranged trip by open boats through the Amsterdam canals was able to take place. Some twenty boats carrying nearly 1,500 delegates and their ladies took part in the tour which was organized by the Municipal Council of Amsterdam. Many of the fine old buildings on the route were illuminated, and the Hall of the Netherlands Institute on the Herengracht was also floodlit.

CONGRESS BALL

The final event of the successful week in Amsterdam was the Gala Ball held on Friday night at the Concertgebouw. The ball began at 9 o'clock and continued until the early hours. Dance music was provided by four bands and there was a highly popular cabaret show.

PRIVATE ENTERTAINMENT

During the course of the Congress, several private functions were arranged outside the official programme. The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Accountants of Scotland both held cocktail parties, while The Institute of Cost and Works Accountants held a luncheon party attended by about eighty delegates and their ladies. In addition, the Netherlands women accountants entertained women accountants from other countries.

INSTITUTE RECEPTION IN LONDON

The President and members of the Council of The Institute of Chartered Accountants in England and Wales held an informal reception at Moorgate Place, London, EC2, last Tuesday evening, for those delegates to the Congress who were returning to their countries via London. The company numbered about 160, of whom approximately 100 were guests from overseas. Members of the committee of the London and District Society joined the Council in entertaining the guests.

THE VERIFICATION OF THE EXISTENCE OF ASSETS

by **SIR RICHARD YEABSLEY, C.B.E., F.C.A., F.S.A.A.**
President, The Society of Incorporated Accountants

A paper presented on Tuesday, September 10th, in Amsterdam, at a business session of the Seventh International Congress of Accountants.

As practising accountants, we are concerned with this feature in two capacities – as auditors and as reporting accountants. In the former our duties are subject to statutory requirements, in the latter by the terms of reference accepted, implied or limited in terms. It may be well to note that while the subject-matter is not directly concerned with the valuation of assets, the existence of an asset implies ownership of something of some value. For the purpose of this paper let us assume that existence and ownership is that with which we are at present concerned.

Firstly, let us consider our duties as auditors and, in particular, under the Companies Acts operative in Great Britain, now codified in the Companies Act, 1948. The Ninth Schedule to that Act enumerates the matters to be expressly stated in the auditor's report and opens with this significant paragraph:

'Whether they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit.'

However, no precise direction is given by the statute as to the steps he should take to enable him to report to the members without qualification that in his opinion . . . the balance sheet gives a true and fair view of the state of the company's affairs at the date thereof. Therefore, let us note the judicial pronouncements on the duty of an auditor that have been made arising from legal proceedings against auditors:

'The duty of an auditor is to verify the facts which it is proposed to state in the balance sheet and to verify them using ordinary and reasonable care and skill.' – LORD JUSTICE WARRINGTON, *In re The City Equitable Fire Insurance Co Ltd* (1924).

'Such I take to be the duty of the auditor; he must be honest – that is, he must not certify what he does not believe to be true, and he must take reasonable care and skill before he believes that what he certifies is true. What is reasonable care in any particular case must depend upon the circumstances of that

case.' – LORD JUSTICE LINDLEY, *In re The London & General Bank Ltd* (1895).

'It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case.' – LORD JUSTICE LOPES, *In re The Kingston Cotton Mill Co Ltd* (1896).

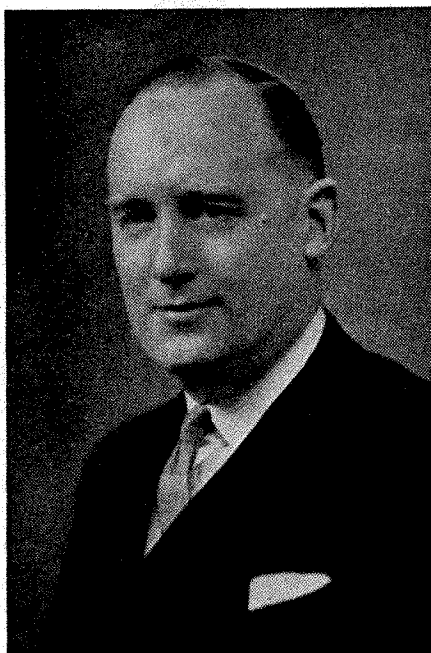
'The auditor most undoubtedly does undertake very considerable responsibilities, and is liable for the proper discharge of his duties, and if by the neglect of his duties or by want of reasonable care . . . damage is caused to the company as such he is responsible for that damage. . . . He has got to bring to bear upon those duties reasonable and watchful care . . . the company look to him to protect their interests. . . . It is quite easy for me to lay down . . . in general terms what the duty of an auditor is, it is very much more difficult . . . to apply that duty to the particular case. . . . It cannot be disputed that when an auditor returns to the shareholders an entry of cash in hand he must have taken reasonable steps to ascertain that the cash was in hand. . . . He has the same duty to discharge in regard to the verification of the cash as he had with regard to the verification of the securities. . . .'

– LORD JUSTICE LINDLEY, *In re The London Oil Storage Co Ltd v. Seear Hasluck & Co* (1904).

These cases deal with the subject in general and with certain assets in particular, but we should also note the following dealing with particular types of assets:

'It is no part of an auditor's duty to take stock. No one contends that it is. He must rely on other people for details of the stock-in-trade in hand.' – LORD JUSTICE LINDLEY, *In re The Kingston Cotton Mill Co Ltd* (1896).

'An auditor is not, in my judgment, ever justified in omitting to make personal inspection of securities that are in the custody of a person or company with whom it is not proper that they should be left.' – CHANCERY DIVISION, *In re The City Equitable Fire Insurance Co Ltd* (1924).



Sir Richard Yeabsley

'I think he (the auditor) must take a certificate from a person who is in the habit of dealing with and holding securities, and who on reasonable grounds rightly believes to be, in the exercise of the best judgment, a trustworthy person to give such a certificate.' - COURT OF APPEAL (ibid.).

'He (the auditor) is entitled to see the company's books and the materials for their books, and also to ask for explanations. But he is not called on to seek for knowledge outside the company, or to communicate with customers or creditors. . . . There was certainly no duty cast on the auditor to take stock.' - *The Irish Woollen Co Ltd v. Tyson and Others* (1900).

Concluding a review of the legal position, I again refer to the *City Equitable* case which may well be regarded as the most important recent case on the subject and quote Lord Justice Sargant, who said:

'In my judgment it would not be right that auditors should deliberately adopt a standard of verification less than the ordinary, below the ordinary standard, because the persons with whom they are dealing are persons of specially high reputation.'

To summarize the legal position in regard to auditors:

- (1) They must obtain all the information they consider necessary for their audit, and in this context it is submitted that information includes verification.
- (2) In the verification of assets stated on the balance sheet they must use ordinary and reasonable care and skill.
- (3) What is reasonable care depends on the circumstances of each case.
- (4) What is skill in this context has been judged by reference to current practice - as evidenced by the ordinary standards enunciated by expert witnesses from the accountancy profession as that which a reasonably competent, careful auditor would use.
- (5) They may rely on the certificates of others to the extent that they judge the others to be trustworthy persons and it would not be reasonable and practicable for them to insist on a personal inspection of items covered by the certificates.
- (6) They are not bound to *take stock* but are bound to make a reasonable and proper investigation . . . of the stock sheets.
- (7) They must take reasonable steps to ascertain that an item 'cash in hand' stated on the balance sheet was represented by cash in hand.

One very important conclusion can be drawn from all this, namely, that the auditor must verify the existence of assets and he is to assess the extent to which this is necessary in the particular case judged by applying ordinary and reasonable care and skill.

Clearly, this judgment will be influenced by (a) the nature of the asset; (b) the extent and efficiency of the system of internal check or audit; (c) degree, i.e. size of the undertaking and the relative importance of the item in question.

(a) Nature of the Asset

It would not be appropriate in such a paper to attempt to indicate the steps of verification that might be taken in respect of each type of asset, but observations

on certain types will serve to indicate the procedures considered appropriate to similar items and cases, but what is said in regard thereto must be subject to the later remarks under headings (b) and (c).

Fixed assets

It is clearly necessary to verify documents of title to such assets as land, buildings - whether held on freehold or leasehold tenure. Their physical existence should, where practicable, be verified by visual inspection, and the same applies to plant, machinery and the like. The plant register should be examined and appropriate test checks made with the plant in position; the use of codings and coding plates affixed to the plant can assist the auditor in identifying the item in question. Such inspection may disclose redundant or obsolete plant and raise the question of their valuation. In this connection, the arrangement of the position of plant etc. should be noted and photographic records may prove of value. The continued use of assets and revenue therefrom after the date of the balance sheet is clearly evidence of their existence - e.g. ships. There are many cases where visual inspection may not be practicable - I refer to those which for one reason or another are inaccessible to the auditor, for example, such assets abroad. Consider underground mines or alluvial mines, rubber and tea plantations, oil-wells and the like. Here it is obvious that some indirect form of verification, quite apart from that of legal title, is all that can reasonably be expected. Here, again, photographic records are of some value, but appropriately worded certificates from the local auditors or officials and the directors should be obtained.

Intangible assets

These include such items as goodwill, trade-marks, patents and the like. Except in the case of goodwill, their existence depends on the legal ownership thereof which can be verified in appropriate manner. Goodwill is often the name given to the excess of the sum paid for a business or assets associated therewith over the values attributed to the net physical assets acquired. Having been verified on its first appearance in the balance sheet, little, if anything, can be done on the audit of subsequent balance sheets. The imprecise nature of this asset is recognized by all, both as to what it is intended to cover and the notional nature of the sum attributed to it in the accounts.

Trade investments and investments in subsidiary companies

Here the auditor is concerned with the legal ownership of such investments and to some extent to the value thereof. To the extent that they represent shares in companies he will take cognizance of the nature and extent of the auditors' report on the last accounts available, and in certain cases, of the standing of the auditor.

To the extent that the investment represents moneys advanced or balance due on current account, a certificate would be obtained from an appropriate official confirming the amount thereof.

Government securities and other investments

The auditor will verify the legal ownership of such investments but the question of their value will be to some extent dependent on the nature of the operations of the company possessing them; for example, banks, investment trusts, finance companies and commercial concerns.

Reference to the nature of the company possessing the type of asset gives one the opportunity of referring in more detail to the extent to which certificates might properly be accepted from persons holding them at the date of the balance sheet. As stated earlier herein, the classic legal case in the British Courts on this subject was *In re City Equitable Fire Insurance Co Ltd* (1924). In this case charges were made against the auditors of the company of negligence in respect of the audit of the accounts of the company for certain years. One of the three charges was their failure to detect and report to the shareholders the fact that a number of the company's securities which were in the hands of Ellis & Co (the company's stockbrokers, of which the chairman of the company, a Mr Bevan, was senior partner), were being pledged by that firm to its customers.

In the Court of Appeal, the Master of the Rolls said he thought that it was going too far to say that under no circumstances can a certificate from a stockbroker be accepted. In the case of a large institution like the City Equitable company, with a considerable amount of investments to make and sell, it may well be a convenient method of business to have large blocks of securities in the hands of the company's brokers. The auditor must in all cases decide whether the person from whom he takes a certificate is in the habit of dealing with and holding securities, and whether he can reasonably regard him as a trustworthy person to give a certificate. This ruling adds to the auditor's responsibility as compared with what it would be if it had, for example, been ruled that he can take a banker's certificate but not any other person's. However, it leaves with the auditor the judgment to make as to what is reasonable in all the circumstances of the particular case, and as Lord Justice Sargant said:

'It would not be right that auditors should deliberately adopt a standard of verification less than the ordinary, below the ordinary standard, because the persons with whom they are dealing are persons of specially high reputation.'

It is submitted that practitioners would all agree that current practice is at least in line with the legal pronouncements.

Current assets

Under this heading it is proposed to deal with only two main items, namely, stock and debtors, as the matter of cash at bankers and in hand may be regarded as covered in what has already been said.

Stock-in-trade

The legal authorities make it clear that it is no part of the auditor's duty to *take* stock, which must mean the original listing of the quantities of the physical

stock, the pricing and valuations thereof; this clearly is the duty of management and the primary responsibility for the accounts presented to the shareholders is clearly placed by Section 149 of the Companies Act, 1948, upon the directors.

What should the auditor do by way of verifying the existence of stock-in-trade? Until recent years it was probably wellnigh universal practice in Great Britain to accept the stock sheets, suitably endorsed by those responsible for listing, supervision, prices and extensions, as evidence of the existence of the stock. For stocks in bond, certificates were and are accepted, while for stocks in warehouses of third parties certificates were and still are accepted in appropriate cases. In certain cases also verification was obtained reference to subsequent proceeds, e.g. in the case of certain crops etc.

However, it is becoming much less uncommon for an auditor to make such tests as he is able to do as to the quantities of the larger items included in stock.

There can be no question of his holding himself out as an expert in such matters; it is obvious that a person with fraudulent motives could mislead and indeed deceive an auditor, both as to the quantity and quality of certain items. Numerous cases will come to one's mind and it is not proposed to give even any obvious examples. The auditor should be careful to make it clear to the management that his visual examination is a cursory one and limited to his inadequate technical knowledge and he does not hold himself out as an expert stock-taker or valuer. It is suggested that this is desirable so as to avoid a possible charge by directors that they were aware that the auditor made a visual check and relied on it in relief of the duties that otherwise they would have carried out.

However, within the limits mentioned, it is submitted that the best practice does require some steps to be taken to verify by visual means the existence of the stocks listed on the stock sheets wherever this is possible and practicable without technical knowledge to do so. Such verification will obviously include a test of the larger items, a review of the stock-taking system generally, including a test of quantities with such financial and stock records that exist. It is submitted that the auditor is at great risk and, indeed, failing in his duty if he does no more than test some prices and extensions and check the additions, but otherwise relies on a certificate of the management and this risk exists even though the item stock-in-trade is stated on the balance sheet 'as valued by the management'.

As to the receipt of certificates as evidence of the existence of stock held by others, much of what is said in regard to certificates of safe keeping of investments applies equally here. Each case must be considered on its merits and while there should be no element of distrust, the auditor will naturally inquire in certain cases 'Why are the stocks so situated?' 'How often are they inspected?' 'Who covers the fire and burglary risk and on what quantities or values?' 'How often

is the stock so held turned over in terms of usage?

Sundry debtors or accounts receivable

Under previous headings reference has been made to the verification of existence *ex post facto* and it is thus that the debts due are in the main dealt with. The composition of the debt recorded in the books and its subsequent payment, together with an examination by way of test of the method of invoicing and of the rendering of statements, of tests of the goods outwards records and the like are also part of such verification. Except in the case of loans or cash advances material in amount, it is most unusual for auditors in Great Britain to require confirmation from debtors of their balances. In this connection the extract given earlier herein from the *Irish Woollen* case may be noted:

'He (the auditor) is not called on to seek for knowledge outside the company, or to communicate with customers or creditors.'

(b) Internal Check or Audit

As has already been said, it is primarily the responsibility of the directors to submit proper accounts to the shareholders and it is their responsibility also to ensure by appropriate safeguards within the organization that the records of assets and liabilities, of sales and cost thereof, are adequate and that the affairs of the company are dealt with efficiently. They are primarily responsible that there are reasonable safeguards to ensure that the assets of the company are not depleted by fraudulent conversion and it is with these matters well in mind that appropriate steps should be taken within the organization. These may be by way of supervision of activities, the rearrangement of duties, systems of authorizations and the like. In some cases there may also be set up a more formal system, or indeed department, devoted to internal audit. Size of the concern and the scope of its operations may well require the latter and with the advent of electronic accounting this is becoming of increasing importance. Interim work by the auditor directed, as is the work of the internal audit staff, to the verification of the transactions and to ensuring that the records to disclose factual matter may well be not only desirable but essential. It is in this field of internal audit and interim audits that much can be done to satisfy the auditor and he will examine with care not only the procedure laid down within the company but also the extent to which they are, in fact, being applied. The efficacy of the internal check or audit will affect the extent of the auditor's verification and while he may report to the directors on weaknesses therein, it is his responsibility, once on notice to take appropriate steps to satisfy himself as to the items in the accounts and if he is unable to do so he should report accordingly to the shareholders.

(c) Degree

In viewing the extent of verification, it is evident that account must be taken not only of what is said previously but also of the size of the undertaking and the

relative importance of the item in question – herein also lies the question of judgment by the auditor. Observe also the following extract from the judgment of Lord Justice Lindley in the *London & General Bank* case (1895):

'What is reasonable care in any particular case must depend on the circumstances of that case. Where there is nothing to excite suspicion, very little inquiry will be reasonable and quite sufficient and in practice, I believe, business men select a few cases haphazard, see that they are right and assume that others like them are correct also.'

While this indicates that test checks are likely to be regarded as reasonable, clearly the extent thereof must be conditioned by the efficacy of the system of internal check and audit as assessed by the auditor himself. Should there be obvious loopholes or indeed grounds for suspicion, then he is required to probe as far as it is necessary to satisfy himself as to the items in question and if need be to qualify the terms of his report to the shareholders.

Before leaving the matter of auditors appointed under statutory provisions such as the Companies Act, 1948, it is noted that auditors appointed under other statutes may be required to state specifically, as, indeed, they are, for example, in the case of building societies and trustee savings banks, certain verifications that they are carried out.

Most of what has been said earlier relates to the position of auditors appointed under the Companies Act, but we, as accountants, are called upon to report on the accounts of sole traders, partnerships and as investigating accountants for some particular purpose, e.g. in regard to possible purchase of an undertaking.

In such cases, the degree of verification is determined by the terms of appointment and the accountant, in his report, will state the scope and the limitations of his responsibility.

It is important to note that the use in the report of the term 'audit' without qualification may fairly be taken to imply verification of the results and position disclosed and reliance may be placed upon it. The work of an accountant is of a technical character and if he is employed as an expert he is expected to bring to bear the skill associated therewith. His report should be in precise terms and the work he does should be such as to verify the substantial accuracy of the statements reported upon consistent with limits of the technical ability expected of such a person, the terms of his appointment and the degree of limitation specifically stated in his report to those appointing him.

In connection with prospectuses, offers for sale and applications in regard to the granting of quotations and permission to deal, the London Stock Exchange require that there shall be submitted to the Share and Loan Department by the auditors a letter confirming 'that they have satisfied themselves that stocks and work in progress (if any) have been properly taken and valued throughout the period covered by their report'. Clearly, such a letter must be so worded as

to indicate the extent to which the auditors were unable to satisfy themselves in regard thereto.

On the subject of disclaimer of responsibility, it is of interest to note that where the auditor of a holding company is not also the auditor of each of the companies whose accounts are consolidated, he will qualify his report on the consolidated statement by including such words as, 'including the accounts of certain subsidiaries that are not audited by me' – thus disclaiming direct responsibility for the verification of the assets etc. of those subsidiaries that are included in the consolidated statement.

While reference has been made herein to case law and judgments over fifty years old, it is submitted that the principles therein enunciated are as valid today as when they were stated. Great developments

have taken place, not only in the growth of companies and the registration of companies with limited liability under the Companies Acts, but also in the form of accounting. With all this, the experience and qualification of those engaged on auditing has increased and with it the general standard of auditing has been raised. The law cases indicate that the judges place reliance on the evidence of practitioners on matters of professional practice and the reasonable standard of skill that might be expected in particular circumstances and we do well to ensure that the standard of each of us is not less than is ordinarily acceptable and that the high standard expected of us is maintained.

In conclusion, was not Shakespeare right when he said in *Othello*,

'Be sure of it, give me the ocular proof?'

Weekly Notes

Integration: Privy Council Approval

We are informed that an addition to the Supplemental Royal Charter of The Institute of Chartered Accountants in England and Wales, consequent upon the scheme to integrate The Society of Incorporated Accountants with the Chartered Institutes, was approved by Her Majesty in Council on August 23rd. Similarly, approval to the amendment of some of the Institute's bye-laws was given by H.M. Privy Council on August 23rd.

Approval was also given by the Privy Council, on August 23rd, to an addition to the Scottish Institute's rules, relative to the integration scheme, following the approval by an Order of Council on August 22nd of a new set of rules for that Institute.

Notification has yet to be received from the Northern Ireland Privy Council and the Government of the Republic regarding the alterations to the bye-laws of the Irish Institute, arising from the integration scheme.

Transport Commission's Purchasing Policy

SIR HAROLD HOWITT'S REPORT

The report of the inquiry conducted by Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., F.C.A., into the British Transport Commission's purchasing procedures was published on Wednesday. The inquiry followed criticisms first made by Mr Ernest Gethin when he left his post of Supplies and Production Adviser to the Commission and later by criticisms raised in Parliament.

Sir Harold gives a qualified approval to the Commission's purchasing policies. He states that the four major allegations of deficiencies in methods and policy made in Parliament were not well-founded. Of Mr Gethin's criticisms, Sir Harold says, 'some were sound . . . some failed to allow sufficiently for the practical difficulties, and some went too far'. In general, Sir Harold considers that there is no reason to think the decisions taken were – in the circumstances – incorrect.

However, the Commission's buying policy, it is stated, is undergoing a radical change with more emphasis on financial controls and safeguards. Here Sir Harold agrees with Mr Gethin that much remains to be done, particularly in unifying procedure between headquarters and the railway regions and divisions. He urges more precise definitions of individual duties, a tightening of contract procedure and standardization of stores.

Both the Government and Sir Brian Robertson, chairman of the British Transport Commission, accept the report and Sir Harold's conclusions. Sir Brian, in a letter to the Minister of Transport, says that a chief supplies officer and a chief contracts officer have now been appointed who will be responsible to the Commission. Competitive tendering is now to be made the rule and Sir Brian agrees with Sir Harold that there should be an officer responsible for production on the central staff of British Railways and this appointment is to be made.

Industrial and Provident Societies

Part 3 of the Report for 1956 of the Chief Registrar of Friendly Societies¹ dealing with the work of his department under the Industrial and Provident Societies Acts and the operations of registered societies under the Acts during 1956 was published on Wednesday.

The bulk of the business under the Acts is transacted by productive and distributive trading societies within the 'co-operative movement'. During 1956 the sales of the retail co-operative stores amounted to £886 million – an increase on the previous year of £63 million – and their shareholding membership increased by 297,000 to 11,856,000. Sales averaged £1 8s 9d per member per week. Out of a surplus of £62 million on the year's working, these societies paid interest on share capital at an average rate of 2.75 per cent, and divided on sales at an average rate of just under 1s 1d in the £.

¹ H.M.S.O., 5s 6d net.

Finance and Commerce

Economic and political uncertainties continue to have a restraining effect on the stock-markets and the natural reluctance of new buyers to take up stock exaggerates the effect on prices of comparatively modest selling pressure. Prospective competition from a heavy volume of new issues is also weighing on the market. The £25 million Vickers offer is to be followed by other sizeable operations.

Blakey's Accounts

The accounts of Blakey's Boot Protectors Ltd, which we reprint this week, present what is possibly the only case of a public company providing for the loss of profits tax non-distribution relief if distribution should take place. The provision is under the group heading of 'Amounts set aside for future taxation' and is entered as 'Possible future liability to profits tax on undistributed profits'.

This year the provision has been adjusted to take account of the reduction in the contingent liability resulting from a capitalization of undistributed profits in reserve in a distribution of one new share for every two held. The amount capitalized was £120,486 and the effect has been to reduce the provision by £56,800 which has been transferred to profit and loss account. The £127,250 now provided in the balance sheet is the 'possible future liability to profits tax on undistributed profits to the additional profits tax which would become payable in the event of a full distribution of the capital and revenue reserves of the group'.

Shareholders' Action

From the angle of company administration the board's policy is given a special interest by the effort now being made by certain shareholders to change it. Mr A. J. Sumption, a member of a firm of solicitors, wrote to the chairman, Mr Thomas Whitham, maintaining that the company is piling up surplus cash. He claims that all current year profits should be distributed and that means should be devised for returning to stockholders cash which, he claims, is not needed in the business.

He therefore proposes that 'we should require the board, as soon after the annual general meeting as can be arranged, to pay a further dividend of 1s per 5s stock unit in respect of the last financial year or £41,565 after deduction of tax'. He maintains that 'this is both reasonable and prudent in the light of the financial strength of the company and would still leave a balance undistributed of £54,597 of the profits of the year and of the provisions no longer required'.

The next step advocated is 'to elect a director pledged to put these proposals into operation, thus showing conclusively that a majority of stockholders favour the adoption of these proposals'. Owing to

the wording of the articles, however, the only way, says Mr Sumption, to elect a new director at the annual general meeting by an ordinary resolution requiring a simple majority is to vote against the re-election of the director retiring by rotation and to elect a new director in his place.

Chairman's Reply

The board's case was put in a memorandum to stockholders issued after the report but before the meeting. Mr Whitham, the chairman, emphasizes the need to keep production fully competitive. He refers to the revolutionary technical developments which have taken place since the war, particularly in relation to the annealing process. The company's main annealing oven, through which some 85 per cent of its products pass, has been in production for twenty years and will soon require replacement. Expenditure envisaged is £180,000 for the plant itself and £100,000 for the site, excavation and preparation for the building. A schedule of capital expenditure planned over the next three years is given, showing by categories, commitments actually contracted for, items approved by the board subject to licences etc., and projects approved in principle. The full programme involves over £500,000.

Problems of Finance

Mr Whitham outlines the current financing difficulties facing most businesses, and emphasizes the board's objective of avoiding them by retaining profits over a long period at the expense, not only of the stockholders who, he points out, have hitherto approved the policy, but also to some extent of the Exchequer.

Admittedly, he continues, this method of financing may not appear to be in the immediate interests of the short-term stockholder, but it is in the interest of the business itself and therefore both of the 1,000 employees 'to whom considerable responsibility is owed by us all', and of the long-term stockholders, 'who are the real investors in our enterprise'.

This memorandum on the board's dividend policy extends to four quarto pages of print and provides a valuable insight into the business and its financing. Had the information been given with the report, the criticism of the dividend policy might not have been heard.

Money Market

There was a slight rise to £4 4s 8.24d per cent in the average Treasury bill rate on September 13th, although the market syndicate's bid was held at £98 18s 10d. Applications for the £250 million of bills totalled £367,215,000. This week's offer is £250 million. The discount houses are now awaiting terms of the Treasury's plans for the redemption of £503 million of maturing Serial Funding Stock.

Consolidated Profit and Loss Account for the Year ended 31st March, 1957

31st March 1956	£	£	£	31st March 1956	£	£	£
Emoluments of Directors of Blakey's Boot Protectors Limited—				Profit on Trading before charging the items shown opposite			
Fees	750	958	20,469	Investment Income	9,659	11,267	224,659
Other Emoluments	15,572	16,322	21,427	Transfer Fees	25	31	11,267
Depreciation of Buildings and Plant and Machinery	12,496	17,282	17,282				
Exceptional Depreciation	201	3,890	3,890				
Provision for Taxation on the Profit for the year—							
Income Tax	68,158	71,523					
Less transfer from provision for taxation relief in respect of initial allowances	650	—					
	67,508	71,523					
Profits Tax payable	15,050	24,550					
Future liability to Profits Tax on undistributed profits	24,700	16,950					
Deferred Taxation arising out of Initial Allowances	—	7,000					
	109,258	120,023					
Net Profit for the year ended 31st March, 1957—							
Dealt with in the Accounts of Blakey's Boot Protectors Limited	87,082	59,786					
Retained by Subsidiary Companies	23,000	13,549					
	£202,359	£235,957					
Cost of increase of authorised capital and capitalisation of reserves							
Goodwill written off	13,078	1,368					
Transfer to Reserve Account	92,779	70,486					
Dividends on Preference Stock, less tax at 8/6 in the £—							
Half year ended 31st December, 1956	168	168					
Half year ending 30th June, 1957 payable 30th June, 1957	168	336					
Dividends on Ordinary Stock for the year ended 31st March, 1957, less tax at 8/6 in the £—							
Interim Dividend of 3d. per unit paid 13th February, 1957	9,237	10,392					
Final Dividend of 8d. per unit payable 24th September, 1957	13,856	27,712					
Special Bonus	4,619	—					
Unappropriated Profit proposed to be carried forward to next year—							
Blakey's Boot Protectors Limited	74,392	82,806					
Subsidiary Companies	61,035	76,594					
	£269,332	£269,694					
Net Profit for the year ended 31st March, 1957—							
Dealt with in the Accounts of Blakey's Boot Protectors Limited	87,082	59,786					
Retained by Subsidiary Companies	23,000	13,549					
	£202,359	£235,957					
Unappropriated Profit brought forward from last year—							
Blakey's Boot Protectors Limited	105,884	74,392					
Subsidiary Companies	83,613	61,035					
	189,497	135,427					
Surplus on sale of Fixed Assets							
	253	—					
Amounts set aside for Future Taxation no longer required—							
Blakey's Boot Protectors Limited	12,000	56,800					
Subsidiary Companies	3,500	1,704					
	15,500	58,504					
Provisions made in earlier years no longer required—							
Blakey's Boot Protectors Limited	—	2,122					
Subsidiary Company	—	306					
	—	2,428					
	£269,332	£269,694					

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Dispensing with Receipts

SIR, - With reference to the correspondence on this subject in previous issues (August 10th, 24th and 31st), surely Section 3 of the Cheques Act, 1957, can be taken at its face value and used as legal cover for dispensing with the issue of receipts for a vast majority of payments made by crossed cheque?

For the payee it seems a wonderful opportunity to save labour and expense: the payer can still file, as evidence of receipt by the payee, the paid cheque which always bears the crossing stamp of the collecting bank.

In the normal course of business most payments are made either by

- (a) individual crossed cheque, or
- (b) credit advice - by bulk payment through a bank or trade clearing house.

Unless we receive advice to the contrary my company proposes to take the following steps:

As payers: For (a) - to dispense with the receipt forms on the backs of our crossed cheques since, relying on Section 3 of the Cheques Act, 1957, no receipt will be required by us. The paid cheque will be filed as at present.

For (b) - to state on the individual credit advices that no receipt is required from the payee. Our auditors accept the duplicate schedule returned by our bankers certifying that 'the payments set forth in the schedule . . . have been made to the bankers named for the credit of the parties specified'.

As payees: We shall tactfully ask our customers to co-operate with us by neither demanding receipts for their monthly payments nor, when their accounts are clear, expecting the return of their statements sent with such payments.

If accountants and auditors will give their support to such methods, thereby helping them to become universal, the savings to the business community will be immense.

Yours faithfully,

H. F. JOYCE,
Secretary,

London, SE1. WELCH, MARGETSON & CO LTD.

Accounting Ratios

SIR, - If 'A.C.A.' (September 7th issue) secures a copy of *Company Income and Finance, 1949-53*, available from The National Institute of Economic and Social Research, 2 Dean Trench Street, Smith Square, London, SW1 (10s), he will be able to compute certain averages for many of the accounting ratios he refers to. He will also find that there is a surprising degree of consistency between different industries. He can supplement this data by reference to the same Institute's publication, *The Replacement*

Cost of Fixed Assets in British Manufacturing Industry in 1955, and if he attempts to interpolate the two sets of data he may reach some salutary conclusions.

Yours faithfully,

Manchester.

J. A. SCOTT.

National Savings and Inflation

SIR, - The subject of inflation is of paramount importance to the nation and the accountancy profession. I am, therefore, wondering whether, through your columns, members of the profession could help to correct what seems to me to be the half-truth attitude of the Treasury evidenced by a letter which I recently received from that department. It is as follows:

DEAR SIR,

Your letter of the 17th August addressed to the Savings Certificate Division of the Post Office about National Savings Certificates has been referred to this Department and I have been asked to reply.

Purchasers of National Savings Certificates are assured that the monetary value will increase by a specified amount over a specified period. But no assurance can be given that the purchasing power of the certificate will be increased or even maintained.

The fall in the purchasing power of the pound since the war has had its effect on all forms of fixed interest investment; moreover, even those investors who have chosen to take the risk of buying equity shares have not always succeeded in maintaining the purchasing power of their investments. It is, further, indubitable that anyone who failed to invest his money at all would be even worse off, and that, if everyone had spent their money instead of investing it, the fall in the purchasing power of the pound would have been even greater. One of the best ways of stopping inflation is by increasing the volume of voluntary saving; inflation can only be made worse if people stop saving. Yours faithfully,

In my submission, so-called National Savings are not really savings at all; they are simply transfers of purchasing power from the pockets of would-be savers to the Government which immediately proceeds to spend the money, largely in the form of salaries and wages which are quickly converted into consumables. It is not 'national savings' if I save, hand the money to the Government and the Treasury forthwith uses the money in such a way that it is quickly used to pay grocery bills, car purchase instalments, television instalments, etc.

I should explain that the letter quoted was written to me because of my recent decision to cut my heavy losses of purchasing power in connection with investment in National Savings Certificates. With an encashment application I sent a letter requesting that the Chancellor and Lord Mackintosh be informed of my decision to encash all my purchases of certificates.

An example in figures may be of interest. About

£100 of certificates bought in 1932 realizes now about £226. As, however, the £ has lost about three-fifths of its purchasing power since 1932, the person encashing receives only £90 in terms of 1932 purchasing power, thus incurring a loss or tax of £10 plus no interest on the money for twenty-five years. Is that fair treatment by the State of those who were induced to buy National Savings Certificates in the

belief that they were acquiring a safe investment which would increase in real value? Does the Treasury's letter encourage one to transfer further savings to the Government for it to spend forthwith and pay off at a later date in further debased paper currency?

Yours faithfully,

Lincoln.

H. G. BROOKE.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Scott v. Commissioners of Inland Revenue

In the High Court of Justice (Chancery Division)
June 28th, 1957

(Before Mr Justice HARMAN)

Surtax - Deed of covenant - Application for charitable purposes - Power to revoke after seven years - Release of power of revocation - Whether settlement made on or after April 10th, 1946 - Finance Act, 1938, Section 38 - Finance Act, 1946, Section 28.

The appellant made a deed of covenant on July 31st, 1941, whereby he undertook to pay to trustees during his life a monthly sum to be applied by the trustees principally for charitable purposes. There was power for the appellant to revoke the deed after August 1st, 1948. On January 26th, 1948, the appellant released his power of revocation.

By Section 28 of the Finance Act, 1946, restrictions were imposed upon the efficacy of such deeds of covenant for surtax purposes, but the section applied only to deeds of covenant made on or after April 10th, 1946. The Special Commissioners decided that the appellant's deed of covenant was caught by that section, and they declined to allow the deduction of the covenanted sum in the computation of the appellant's total income for surtax purposes.

Held, that the settlement, under which the covenanted sum was paid, was effected by the deed of covenant of 1941; that the deed of release of January 26th, 1948, did not alter that position; and that the case was not caught by Section 28 of the Finance Act, 1946.

The Norseman

In the High Court of Justice (Probate, Divorce and Admiralty Division) - June 5th, 1957

(Before the PRESIDENT, Lord MERRIMAN)

Income tax - Interest of money - Interest awarded on damages for injury to ship - Whether tax deductible from interest - Notification of intention to deduct - Payment into Court - Costs - Law Reform (Miscellaneous Provisions) Act, 1934, Section 34 - Income Tax Act, 1952, Sections 169, 170 - Double Taxation Relief (Taxes on Incomes) (General) Regulations, 1946 (No. 466, Regulation 3 (2)) - Double Taxation (Taxes on Income) (Norway) Order, 1951 (No. 1798).

In 1952 the *Norseman*, owned by Norwegian nationals, while lying in a British harbour in severe

weather, carried away her ground moorings and took ground in the harbour. An action for negligence was brought against the British Transport Commission and liability was admitted. The Admiralty registrar decided that the plaintiffs were entitled to £852 19s 5d as damages, and reserved his decision on the question of interest and costs. It later appeared that on February 15th, 1955, the defendant had offered to pay the plaintiffs £900 including interest, and, on that offer being refused, £900 had been paid into Court. At a subsequent hearing on January 18th, 1957, the registrar decided that the plaintiffs were entitled to interest at 4 per cent per annum on the £852 19s 5d from February 25th, 1953, the date of the payment of the repair bill, to February 15th, 1955, together with the whole of their taxed or agreed costs to the latter date and half their taxed or agreed costs incurred afterwards.

Both parties filed notice of motion in objection to the registrar's decision. The defendant objected that, as it had offered a sum which would have satisfied the claim, the registrar should not have ordered the payment of half the plaintiff's taxed or agreed costs incurred after February 15th, 1955. The plaintiffs objected that the registrar had failed to allow interest at 4 per cent per annum from February 15th, 1955, till January 18th, 1957, or until payment of the amount due, that the registrar had failed to allow them the whole of their taxed or agreed costs incurred after that date, and that the defendant was not entitled to deduct income tax from the £852 19s 5d.

Held, (1) that tax was deductible from interest awarded in an action for damages; (2) that, on payment into Court, in Admiralty, of an aggregate sum in respect of damages and interest, notification should be given of the deduction of income tax from the interest; (3) that as the plaintiffs were exempt from tax, pursuant to the Double Taxation (Taxes on Income) (Norway) Order, 1951, no tax should have been deducted and consequently the £900 paid into Court did not exceed the amount awarded to the plaintiffs; (4) that therefore they were entitled to their costs incurred after February 15th, 1955; (5) that the interest should run to January 18th, 1957, the date of the registrar's decision; (6) that the plaintiff should have two-thirds of their taxed costs in the Court and before the registrar.

Notes and Notices

PERSONAL

MESSRS GILLESPIE BROTHERS & Co, Chartered Accountants, of 43 Chandos Place, London, WC2, announce that Mr KENNETH JOSLING GILLESPIE, A.C.A., the son of their senior partner, has been admitted into partnership as from September 9th, 1957.

MESSRS S. M. VAN GELDER & Co, Chartered Accountants, of 4 Rostrevor Avenue, Tottenham, London, N15, announce that as from August 17th, 1957, they have removed their offices to 21 Broadfields Avenue, Edgware, Middlesex.

MR MICHAEL SINCLAIR, A.C.A., and MR HAROLD LEIGH, A.C.A., announce that as from October 1st, 1957, they are amalgamating their practices. The combined firm will practise under the style of SINCLAIR, LEIGH & Co, Chartered Accountants, at 38 Great Portland Street, London, W1.

PROFESSIONAL NOTES

Mr E. Julian Pode, J.P., A.C.A., F.C.I.S., has been appointed a director of Guest, Keen & Nettlefolds Ltd.

Mr A. I. Mackenzie, C.A., has been appointed a director of Metal Industries Ltd.

Mr G. A. Butler, A.S.A.A., assistant secretary of Wilson Lovatt & Sons Ltd, has been appointed secretary and accountant of the company.

CHARTERED ACCOUNTANT ELECTED M.P. FOR GLOUCESTER

Mr J. Diamond, F.C.A., a partner in the firm of John Diamond & Co, Chartered Accountants, of London, has been elected Labour Member of Parliament for Gloucester at the recent by-election in a three-cornered fight.

The polling was as follows:

Mr J. Diamond (Labour) ..	18,895
Mr F. Dashwood (Conservative) ..	10,521
Lieut.-Col. P. H. Lort-Phillips (Liberal)	7,393
Labour majority ..	8,374

Mr Diamond previously represented the Blackley division of Manchester from 1945-51; in the Labour Government he was Parliamentary Secretary to the Ministry of Works.

CHARTERED ACCOUNTANT TO INQUIRE INTO TAXI FARES

Mr W. G. Densem, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales and senior partner in the firm of Deloitte, Plender, Griffiths & Co, Chartered Accountants, of London, has been asked by the Home Secretary to make an independent investigation into the costs of operating London taxis with a view to advising the Home Secretary on the revision of present fares.

A provisional increase in London taxi fares of 6d on each completed journey was authorized by the Home Secretary on September 12th. It is the first increase in fares since 1951 apart from the 6d surcharge introduced during the Suez crisis and later abolished.

APPROVED AUDITORS: FRIENDLY SOCIETIES

The Chief Registrar of Friendly Societies has issued a revised list of approved auditors appointed by H.M. Treasury for the purposes of the Industrial and Provident Societies Acts, the Friendly Societies Acts and the Industrial Assurance Acts.

COMMITTEE ON EXPORT CREDITS GUARANTEE DEPARTMENT

MR BERTRAM NELSON APPOINTED A MEMBER

Mr Bertram Nelson, C.B.E., J.P., F.S.A.A., a Past President of The Society of Incorporated Accountants, and a partner in the firm of Lithgow, Nelson & Co, Incorporated Accountants, of Liverpool and London, has been appointed a member of an independent committee to consider the suitability of the present organization and status of the Export Credits Guarantee Department for the performance of its statutory duties. The committee of four members under the chairmanship of Sir Eric Speed has been appointed by the President of the Board of Trade in agreement with the Chancellor of the Exchequer.

THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

MEETING OF EXECUTIVE COMMITTEE

At a recent meeting of the Executive Committee, Mr W. S. Carrington, F.C.A., the President of the Association, and seven members were present.

New Applications

Seven new applications for assistance were considered. In four cases a grant was made; one application was refused, one was deferred, and in the other case the President was authorized to make a grant if and when necessary.

Further Assistance

Thirteen applications for further assistance were considered; in eight cases the grant was renewed; in four cases the grant was increased, and in one case it was decided to stop payment of the grant for the time being.

Special Fund

One application for further assistance was considered and the grant was renewed.

Matters Reported

The Hon. Secretary reported changes in the circumstances of a number of beneficiaries and in two cases the grants were increased and in two cases donations were given.

Gifts in Kind

It was decided to give gifts of clothing in appropriate cases.

Homes for Old People

The Hon. Secretary reported that a fourth home for old people in St Leonards-on-Sea was to be opened early in September and that the Association had a right to nominate two persons for this home. The Hon. Secretary would be glad to hear of any member, member and his wife, or widow of a member, who would like to be considered as a resident in one of the homes of the Trust.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The 1957-58 winter programme of The Accountants' Christian Fellowship will commence on Friday next, September 27th, with a service of dedication conducted by the Rev. R. H. Turvey (Vicar of Christ Church, North Finchley), to be held at 6 p.m., in All Souls Church, Langham Place, W1. As at all meetings of the Fellowship, members, their friends and any others who are interested will be most welcome.

The Accountants' Christian Fellowship was formed in November 1953, with the object of promoting fellowship among Christians preparing for and engaged in accountancy and by so doing to seek to extend the Kingdom of God. We have been requested to state that the basis of the Fellowship is the acceptance of the principles of the Christian Faith as taught in the Scriptures, particularly a personal trust in our Lord and Saviour, Jesus Christ.

The Fellowship is interdenominational and membership is open to all accountants and accountancy students. At the present time there are about four hundred members and the number is increasing. The Fellowship will welcome as members all those who love our Lord and Saviour, Jesus Christ, in sincerity and in truth and who desire to give expression to their faith within the sphere of their business life.

Monthly meetings to hear speakers have been arranged throughout the winter 1957-58. These meetings, to which non-members are welcomed, will

be followed by discussion meetings for students. A monthly meeting for Bible reading and prayer is held throughout the year in the vestry of St Mary Woolnoth Church, King William Street, EC3.

Accountants wishing to join the Fellowship should write to the Hon. Secretary, Mr N. Bruce Jones, C.A., 7a Princes Rise, Lewisham, SE13, or inquire at one of the Fellowship meetings.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The senior week-end residential course of the Chartered Accountant Students' Society of London was held at Corpus Christi College, Cambridge, from September 12th to 15th. The course was attended by 143 students, and Sir Harold Gillett, M.C., F.C.A., President of the Students' Society, presided over the opening dinner in the Hall of the College.

Lectures were given by Sir Harold Kent, K.C.B., the Treasury Solicitor, on the work of his department; Mr J. W. Margetts, F.C.A., F.S.A.A., on business investigations; Mr G. S. A. Wheatcroft, M.A., J.P., F.I.I.A., F.I.I.T., on the meaning of 'income' in income tax law; Mr R. J. Smithson, A.C.A., A.C.W.A., on management accounting; and Mr R. F. Henderson, M.A., PH.D., on the current economics of the country.

The discussion groups which followed the lectures formed an important part of the course and valuable experience was gained.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council Meeting held on September 4th, 1957, who completed their Fellowship or membership before September 17th.

Associates elected Fellows

Adams, John Alfred; 1950, A.C.A.; (Crane, Christmas & Co), 70 Old Broad Street, London, EC2.
Barger, Frederick Ernest; 1935, A.C.A.; (F. E. Barger & Co), 23 Westbury Road, Woodside Park, London, N12.
Daniels, Leslie, M.A.; 1927, A.C.A.; Headlands, Porthpean, near St Austell, Cornwall.
Drabble, Arthur George Bernard, T.D.; 1948, A.C.A.; (Crane, Christmas & Co), 70 Old Broad Street, London, EC2.
Gamble, Ernest John; 1951, A.C.A.; (†Hays, Akers & Hays), 30 Cursitor Street, Chancery Lane, London, EC4.
Heaven, Kenneth Victor Rhodes; 1948, A.C.A.; (Kenneth V. R. Heaven & Co), C.M.L. Buildings, Great Charles Street, Birmingham, 3.
Lofthouse, Harry; 1950, A.C.A.; (William Lambert & Co),

National Provincial Bank Chambers, Scott Street, Keighley, Yorks.
Miskin, Edgar Percy; 1952, A.C.A.; (Bright, Grahame, Murray & Co), 61 Portland Place, London, W1.
Mitchell, William Norman; 1947, A.C.A.; (A. Fearnley & Co), 147 High Street, Newton-le-Willows, Lancs.
Nelson, Frank Gelling; 1936, A.C.A.; (*Williamson & Nelson) and (Frank G. Nelson), 8 Hamilton Square, Birkenhead.
Robinson, Clifford John; 1950, A.C.A.; (Crane, Christmas & Co), 70 Old Broad Street, London, EC2.
Ross, Jack; 1942, A.C.A.; 16 John Dalton Street, Manchester, 2.
Round, Arthur Reginald; 1924, A.C.A.; (Love & Round), Inhedge House, 31 Wolverhampton Street, Dudley, Worcs, and at Birmingham.
Simpkins, John George; 1943, A.C.A.; (Nevill, Hovey, Smith & Co), 62 High Street, Exeter, and at Launceston, Okehampton and Plymouth.
Stevens, David Spenser; 1951, A.C.A.; (Lord, Foster & Co), Rex House, 38 King William Street, London, EC4.

*Admitted as Associates**(In Practice)*

Moseley, Peter Thomas (Peter T. Moseley & Co), 25 Disney Close, Ingatestone, Essex.

(Not in Practice)

Abbott, Alexander Donald, with Easton & Co, Lombard House, Great Charles Street, Birmingham, 3.
Abbott, Derek Harry, 1 Sheridan Walk, Lexden, Colchester.
Abel, Alan Ralph, 14 Manor Gardens, South Croydon, Surrey.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

Firms not marked † or * are composed wholly of members of the Institute.

- Adams, Anthony Keith, 2 Lightwood House, Lightwood Road, Buxton, Derbyshire.
- Adcroft, Peter, 99 Fordway Avenue, Layton, Blackpool.
- Alfatt, Malcolm Edward, 2 Cranbrook Road, East Barnet, Herts.
- Allardice, James Brian, with Davies, Downs & Co, 82 Sankey Street, Warrington.
- Allen, Kenneth Harry, B.A.(COM.), with Burne, Phillips & Co, 207 Deansgate, Manchester, 3.
- Amatt, Cecil Henry, 75 Kildare Avenue, Ipswich, Suffolk.
- Anderson, Christopher John, M.A., with †Peat, Marwick, Mitchell & Co, 7 Low Pavement, Nottingham.
- Anderson, James, B.Sc.(ECON.), 159 Chester Road, Greenbank, Northwich, Cheshire.
- Andrews, Neil Thomas, 248 Dawlish Road, Selly Oak, Birmingham, 29.
- Appleby, Douglas Edward Marrison, B.Sc.(LOND.), B.Sc.(NOTTM.), 106 Empire Court, Wembley Park, Middlesex.
- Archer, William Alan, with Waugh, Haines & Co, 15 King Street, Hereford.
- Armitage, James Michael, with Parkinson, Mather & Co, 10 Norfolk Street, Manchester, 2.
- Artley, John Graham, 32 Easterside Road, Marton-in-Cleveland, Middlesbrough.
- Aston, Raymond, 38 West View Grove, Whitefield, Manchester.
- Ayoola, Edmund Olatunde, B.Sc.(ECON.), with Walpole, Harding & Co, 49 Montpelier Road, Brighton, 1.
- Babiak, Harvey, B.Sc.(ECON.), with Russell Tillett & Co, 18 St Swithin's Lane, London, EC4.
- Baguley, Robert Harold, 57 Kingsfield Drive, Didsbury, Manchester, 20.
- Baker, Arthur Henry Claude, with †Chalmers, Wade & Co, 5 Fenwick Street, Liverpool, 2.
- Baker, David Ingram, with Cooper Brothers & Co, 14 George Street, Mansion House, London, EC4.
- Baker, Geoffrey Michael Neil, B.Sc.(ECON.), with Saffery, Sons & Co, 200 Gresham House, Old Broad Street, London, EC2.
- Bale, Robert Michael, B.A.(COM.), 7 Kingsway, Ansdell, Lytham St Annes.
- Ball, Clive David, with Higson & Co, White House, Wollaton Street, Nottingham.
- Ball, Francis Richard, 411 Woolton Road, Gateacre, Liverpool.
- Barber, Roy, 10 Helena Street, Mexborough, Yorkshire.
- Barlow, Geoffrey Sydney, with F. Arthur Pitt & Co, 14 John Dalton Street, Manchester, 2.
- Barman, Jonathan Henry, Pennfield House, Melbourne, Derbyshire.
- Barnes, Philip Michael, with A. W. Wheeler & Co, 9 Colehill, Tamworth, Staffs.
- Barnett, Bryan, 22 Basford Park Road, Newcastle, Staffordshire.
- Baron Cohen, Gerald, B.A., 16 De Burgh Street, Cardiff.
- Barrell, David William Aubrey, 17 Walberton Avenue, Cosham, Portsmouth.
- Barrick, Alan, 7 Wellington Road, Swinton, Lancashire.
- Barrow, John Richard, Beausale Cottage, Beausale, Warwickshire.
- Bates, David John, 72 Biggin Hill, Upper Norwood, London, SE19.
- Batty, Edward, with J. F. W. Robinson & Co, Oxford Chambers, New Oxford Street, Workington, Cumberland.
- Bedingfield, Hugh Christopher, with †Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London, EC2.
- Beevor, John Rowland, B.A., with Blackburns, Robson, Coates & Co, 59 New Cavendish Street, London, W1.
- Berkowitz, David Maurice, with Kemp, Chatteris & Co, St Swithin's House, 37 Walbrook, London, EC4.
- Bewers, John Stuart Leslie, with Heward Dutchman & Co, Cross Keys House, 56 Moorgate, London, EC2.
- Binder, Alan George, 'Oakleigh', Cryers Hill, High Wycombe, Bucks.
- Blakstad, Michael Erik, 'Bow Hill', Bakers Lane, Knowle, Birmingham.
- Bloomfield, Aston Samuel, with L. Gibson & Co, 14 Harley Street, London, W1.
- Blumer, Charles Robert Colville, with John Baker, Sons & Bell, Cunard House, 88 Leadenhall Street, London, EC3.
- Booth, Ian Gordon, with †Mann, Judd & Co, 8 Frederick's Place, Old Jewry, London, EC2.
- Bower, Brian Ralph, with Pilling & Co, 30 Brown Street, Manchester, 2.
- Bowyer, John Raymond, 6 Upsdell Avenue, Palmers Green, London, N13.
- Braithwait, Peter, 152 Westwick Road, Beauchief, Sheffield, 8.
- Brandt, Richard, B.A., with Annan, Dexter & Co, 21 Ironmonger Lane, London, EC2.
- Brazel, Graham Anthony, 32 Goodwin Drive, Sidcup, Kent.
- Broad, Michael Frank Stuart, 20 West Drive, Harrow Weald, Middlesex.
- Bronnert, John, 'Maitlands', Ashley Road, Hale, Altrincham, Cheshire.
- Brook, Geoffrey, Llanrhos Post Office, Llandudno, North Wales.
- Browne, Frank Joseph, with Martin & Acock, Westminster Bank Chambers, 69 London Street, Norwich.
- Bucks, David, 50 Ducks Hill Road, Northwood, Middlesex.
- Bukhari, Syed Nazir Ahmad, with Bright, Grahame, Murray & Co, 61 Portland Place, London, W1.
- Burnard, Godfrey Harry, B.COM., with Strachan & Co, 2 Windsor Terrace, Newcastle upon Tyne, 2.
- Burrough, Graham Frederick, with M. W. Burrough & Co, 10 South Street, Bridport, Dorset.
- Burrow, Peter William, 286 Fishponds Road, Bristol, 5.
- Burton, Bernard Francis Clive, B.A., with Chamberlain & Merchant, Park House, Friar Lane, Nottingham.
- Butters, Alan Malcolm, 587 Whitehall Road, New Farnley, Leeds, 12.
- Cadoux-Hudson, Heron Leslie, B.A., with J. H. Champness, Corderoy, Beesly & Co, 10 St Swithin's Lane, London, EC4.
- Candy, Robert Charles, 198 Anerley Road, Anerley, London, SE20.
- Capewell, John Dennis, 6 Marl Road, Netherton, Dudley, Worcs.
- Cariss, Paul Roger, with Carter & Co, 8 Greenfield Crescent, Edgbaston, Birmingham, 15.
- Carr, Alan, 12 Princess Road, Dronfield, Sheffield.
- Carr, Ian Fifield, 12 Willowcourt Avenue, Kenton, Harrow, Middlesex.
- Carter, Alan, B.COM., with T. C. Squance & Sons, Douro House, 7 Douro Terrace, Sunderland.
- Carter, Colin Stanley, 19 Beresford Road, Wallasey, Cheshire.
- Chandler, Richard Saville, with J. W. Austin (J. W. Austin & Co), 8 Hitchin Street, Biggleswade, Beds.
- Charlton, Peter Bennett, with †Jackson, Taylor, Abernethy & Co, 24 St Mary Axe, London, EC3.
- Charlton, Richard Thomas Swetman, 87 Monkams Drive, Woodford Green, Essex.
- Chater, Christopher Thomas, 99 Gipsy Lane, Kettering, Northants.
- Chatterjee, Sailendra Kumar, c/o India Audit Office, 55 Jermyn Street, London, SW1.
- Child, David, 741 Bradford Road, Birkenshaw, near Bradford.
- Childs, Patrick Carthew Fuller, 'Pine Wood', Burnham-on-Sea, Somerset.
- Chissell, John Gordon, 12A Pinewood Road, Branksome Park, Bournemouth.
- Clark, John Ogden, 'Denehurst', Scatcherd Lane, Morley, near Leeds.
- Clarke, Charles Joseph, 5 Martindale, East Sheen, London, SW14.
- Clarkson, William Ernest, 132 Davey Road, Handsworth, Birmingham, 20.

- Collard, John Wharton Marcy, with Norman & Whitehead, 20-23 Wardrobe Chambers, 146A Queen Victoria Street, London, EC4.
- Cooper, Alan Albert, 33 Kenneth Crescent, London, NW2.
- Cooper, Bernard Michael, with Leigh, Sorene & Lawson, 146 Oxford Street, London, W1.
- Cooper, Gordon, 61 Fallowfield Road, Hasbury, Halesowen, near Birmingham.
- Cooper, Graham Charles, 90 Ridgeway, Edgbaston, Birmingham, 17.
- Cooper, Kenneth, 17 Warwick Avenue, Bewsey, Warrington.
- Corbett, Peter Graham, Ludwells Farm, Cowden, Edenbridge, Kent.
- Cornish, John, with Silver, Altman & Co, Napier House, 24/27 High Holborn, London, WC1.
- Cotton, Antony David, B.A.(COM.), 281 Frederick Street, Oldham.
- Coulter, Charles Michael, B.COM., 40 Blossomfield Road, Solihull, Warwickshire.
- Cowling, David, with Herbert Pepper & Rudland, 33 St James's Street, London, SW1.
- Dakin, Robert Baxter, 'Lancsom', Audley Park Road, Bath.
- Dale, Anthony Charles Hughes, with Robert J. Ward & Co, Adelphi Terrace House, 3 Robert Street, Adelphi, London, WC2.
- Dane, Terence Edward, with Leach, Johnson, Travis & Co, 32 Kennedy Street, Manchester, 2.
- Davis, Frederick Arthur William, with Hudson, Rimmer, Cordery & Co, National Provincial Bank Chambers, Church Street, Malvern, Worcs.
- Dawkes, John, with Abbott, Deeley, Hill & Co, Sun Building, Bennett's Hill, Birmingham, 2.
- Dennes, Peter Warren, Hill Court, Congresbury, near Bristol.
- Dixon, Brian, 157 Featherstall Road North, Oldham.
- Dodd, Peter Trevor Johnstone, Deva House, Silverdale Avenue, Walton-on-Thames, Surrey.
- Donnelly, Desmond Cyril, 35 Dorrington Road, Sale, Cheshire.
- Dove, Samuel Stuart, 7 Sherwood Court, Seymour Place, London, W1.
- Dowsett, Peter Ames, 22 Parkland Road, Woodford Green, Essex.
- Drinkwater, Michael Samuel, with *Richey & Drinkwater, 1 Newhall Street, Birmingham, 3.
- Dunning, Norman, with Robert Miller & Co, Jubilee Buildings, Newbottle Street, Houghton-le-Spring, Co. Durham.
- Dutt, Kalyan Kumar, B.COM., 15 Ambrose Avenue, Golders Green, London, NW11.
- Edwards, Dennis David, 4 Burgess Road, Bassett, Southampton.
- Elfick, Richard Stanley, 54 Elmsworth Avenue, Hounslow, Middlesex.
- Ellis, James Renfrey, 94 Park Avenue, Wrexham.
- Evans, Trefor Williams, B.A., The Manse, 65 Blaenau Road, Llandeby, Carmarthenshire.
- Everist, Michael Charles, with Fuller, Wise, Fisher & Co, 55/61 Moorgate, London, EC2.
- Falconer, Alexander Peter, 23 Lansdowne Avenue, Grimsby.
- Fargher, William Geoffrey, 13 Meadow Bank, Bury.
- Farmer, John Anthony Cotton, 'Morwenna', Deepdene Drive, Dorking, Surrey.
- Fay, Michael Alan, with Cooper Brothers & Co, 14 George Street, Mansion House, London, EC4.
- Fewkes, Brian Ashley, with R. R. Preston & Son, 9 New Street, Leicester.
- Figov, Kenneth John, 44 Tyndale Mansions, Upper Street, London, N1.
- Flint, Robert James, 3 Poorfield Street, Oldham, Lancashire.
- Foot, Richard John, with F. L. Attenborough, St Mary's Chambers, St Mary's Gate, Derby.
- Ford, James Harry George, B.COM., 20 Byron Street, Easington Colliery, Co. Durham.
- Foster, Ian Francis Montgomery, 4 Nunclose, Mount Pleasant, Oxtou, Birkenhead.
- Frankel, Mervyn Richard, The Studio, 11A Pembridge Crescent, London, W11.
- Franklin, John Herbert, with *Temple, Gothard & Co, 7 & 8 Norfolk Street, Strand, London, WC2.
- Franks, Jeremy David, Coombe Grange, Kingston upon Thames, Surrey.
- Fraser, Ian Henry, with Fuller, Wise, Fisher & Co, 55/61 Moorgate, London, EC2.
- Fraser, Roy Stuart, B.COM., 15 Ashfield Drive, Frizinghall, Bradford, 9.
- Free, Ian Edward Theodore, 44 London Road, Marlborough, Wilts.
- Freedman, Maurice, 614 Watford Way, Mill Hill, London, NW7.
- French, Derrick Thomas, 3 Braintree Road, Ruislip, Middlesex.
- Fulton, Graeme Macdonald, c/o Gittens, Hurton & Roberts, 60 Castle Street, Liverpool, 2.
- Fyson, Darrell Rae, 34 Southway, Carshalton Beeches, Surrey.
- Galvin, Peter John, with Williams, Taylor & Co, 11 Peter Street, Manchester, 2.
- Garman, Derek Owen, with †Rawlinson & Hunter, 35 Clarges Street, Piccadilly, London, W1.
- Gay, John Edward, 37 Bedwin Street, Salisbury, Wiltshire.
- Gell, Peter Donald Marriott, M.A., Hawthorn House, Grove Road, Beaconsfield, Bucks.
- Gent, Richard Peter, B.A., Manor Farm, Tormarton, Badminton, Glos.
- Gerrard, Roy Keith, 'Northfield', Chorley New Road, Lostock Park, Bolton.
- Gibson, John Alfred, with Arnold Hill & Co, 28 Victoria Street, Westminster, London, SW1.
- Giffin, Michael, 3 Garth Road, Sevenoaks, Kent.
- Gillespie, Kenneth Josling, B.A., with Gillespie Brothers & Co, 43 Chandos Place, London, WC2.
- Godfrey, Eric George Henry, 23 Welhouse Road, Carshalton, Surrey.
- Gold, Michael Raymond, 1 Shirehall Gardens, Hendon, London, NW4.
- Golding, Michael Ezra, with †Binder, Hamlyn & Co, 121 Queen Victoria Street, London, EC4.
- Goodman, John Dennis Julian, 25 Westrum Lane, Brigg, Lincs.
- Govier, Peter John Hugh, 'Queenswood', Revelstoke Avenue, Farnborough, Hampshire.
- Graham, John Anthony, 19 Minster Road, London, NW2.
- Green, Anthony Edmund, with Evans Smith, Boothroyd & Co, 99 Fenchurch Street, London, EC3.
- Green, Thomas Harold David, with F. Arthur Pitt & Co, 14 John Dalton Street, Manchester, 2.
- Greenslade, Malcolm Henry, B.SC.(ECON.), 8 Frithwood Avenue, Northwood, Middlesex.
- Gregory, Alfred, 23 Bleasby Street, Oldham.
- Griffin, John Philip, with †Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.
- Groom, David Bedford, with Griffin Stone, Moscrop & Co, 21 Manchester Square, London, W1.
- Guest, Richard Thomas, 18 Glendor Road, Hove, Sussex.
- Haddleton, David Keith, 35 Hayward Road, Oxford.
- Hadley, Michael James, 58 Onslow Gardens, South Woodford, London, E18.
- Haigh, William, 47 Stamford Street, Mossley, Lancs.
- Hall, John Leslie, with *E. B. Gasking & Co, Martins Bank Chambers, Moor Street, Ormskirk, Lancs.
- Hamilton, Ian Douglas, with †Chalmers, Wade & Co, 5 Fenwick Street, Liverpool, 2.
- Hamilton, William Ian, 48 London Road, Coalville, Leicester.
- Handley, Iain Hamish, with *A. J. Whittington, Wootton & Co, 17 St Peter Street, Winchester.
- Handley, Noel Arthur, B.A., with Fisher, Batty & Fellows, 2 Lombard Street West, West Bromwich.

- Harbord, Richard, with John M. Winter & Sons, 39 St James's Street, London, SW1.
- Harden, John Albert Hilary, 12 Park Road, Woking, Surrey.
- Harden, Peter Lee, B.Sc.(ECON.), 27 Glebe Road, Cheam, Surrey.
- Hardy, Paul Ernest, 2 Thorn Road, Bramhall, near Stockport, Cheshire.
- Harries, James Colin, 9 Heol Tyn-y-Coed, Rhiwbina, Whitchurch, Glam.
- Harrison, John David, 46 William Road, Stapleford, Notts.
- Hartley, Brian Newbitt, 'Ann Arbor', Barnoldswick Road, Barrowford, Nelson, Lancs.
- Hawken, Ronald Arthur, with Rushton Osborne & Co, Bank Chambers, 1 John Street, Bedford Row, London, WC1.
- Hawkins, David Richard, with †Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
- Haywood, Peter Robert, 60 Knowle Lane, Ecclesall, Sheffield, 11.
- Heacock, David John, B.A., 47 West Drive, Handsworth, Birmingham, 20.
- Helps, Peter, B.Sc.(ECON.), with John Baker, Sons & Bell, Cunard House, 88 Leadenhall Street, London, EC3.
- Henzell, Thomas Gibson, with T. Kingsley Allan, 3 Saville Chambers, North Street, Newcastle upon Tyne, 1.
- Hicks, Denis George, 2 Munster Gardens, Palmers Green, London, N13.
- Higgins, Brian Anthony, 'Roslin', Rivington Road, Hale, Cheshire.
- Hill, Donald Keith, with †Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
- Hing, Richard Ulric, with †Hogg, Bullimore & Co, 91 Park Street, Park Lane, London, W1.
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SHOCK TREATMENT

THE dramatic decision by the Bank of England to increase the Bank rate to 7 per cent - the highest rate since the early 1920s - came only twenty-four hours after a cut in the Western German rate by $\frac{1}{2}$ per cent to 4 per cent, to be followed, ironically enough, almost twenty-four hours later by the news that Western Germany's gold holdings now exceeded 10,000 million marks for the first time. Within this juxtaposition of events, it is possible to discern some of the causes which led to such a painful and sudden application of monetary discipline.

The immediate reason for the rise in Bank rate is undoubtedly the need to defend sterling and to halt the serious drain on our gold and dollar reserves. Indeed, if the measures now invoked are successful, the outcome should lead not just to a defensive 'hold-the-line' situation, but to a speedy restoration of the reserves to somewhere near their pre-Suez level. As the CHANCELLOR OF THE EXCHEQUER made clear in his statement:

'The change in the exchange rate of the French franc generated a large-scale speculation among the world's leading currencies, in which sterling is necessarily most involved because it is so widely held.'

One might also add that the position has been aggravated by rumours of the impending revaluation of the West German mark, so that, of late, pressure against sterling has been due more to speculators selling £s and buying D-marks than to any unheralded adverse turn in our import-export position.

Other rumours - iniquitous to sterling at the present juncture - hinted at a possible widening of the permitted margins allowed under the existing exchange regulations (i.e. \$2.78-\$2.82 to the £). But this 'trial balloon' was firmly scotched in the CHANCELLOR's statement and repeated in emphatic terms in a speech in Washington this week: 'It stays at \$2.80.'

Nevertheless, it is the reaction of the foreign exchanges which will pass the final verdict on the CHANCELLOR's measures. For the moment, it is enough that the authorities have given the world an unequivocal sign of their determination to maintain the value of the £. Thus, on the eve of his departure for Washington to attend the International Monetary Fund meeting, the CHANCELLOR could feel confident that on this occasion he has, in truth, backed up his words with deeds. May be that is just as well, for the past few years have shown the futility of exhortation unbacked by sanctions.

So much, then, for the grave external issues involved which appear to have prompted the timing and the extent of recent measures. Yet, in matters of this kind, internal and external issues cannot altogether be dealt with in isolation: for they

are inextricably linked one with the other. The success (or failure) of drastic internal policies, therefore, has a profound psychological effect upon opinion overseas. Once confidence there is restored, some alleviation of the upset caused by internal measures might be possible. Apart from the 2 per cent rise in Bank rate, the other internal moves announced by the Government include: (a) a proposal to hold down the total of investment expenditure by Government departments, local authorities, and nationalized industries within the level attained this year; (b) a parallel curb on the private sector whereby the level of bank advances is to be pegged at the average level for the last twelve months; and (c) instructions to the Capital Issues Committee to take a

'more restrictive and critical attitude towards applications to borrow, and in particular towards applications for large amounts'.

All this cut-back in investment and trade may seem odd coming at a time when this country is earning an external surplus which, by post-war standards, is about normal; when production is on the brink of surging forward again; when raw material prices are falling, so helping the terms of trade; when unemployment is low and the number of unfilled vacancies is rising. These favourable signs and portents, however, only obscure the chronic weakness in our economy attributable to that malady - inflation.

There is, indeed, very little merit in Britain curtailing her total rate of capital investment at all, though there may be a case for overhauling the pattern of investment. She is obliged to do so only because she has been unwilling to reduce her rate of consumption. Even so, it is as well to remember that interest rates do not have their effect on capital investment alone; consumption, too, feels the sharp cutting-edge.

Mention might also be made of other disadvantages of a higher Bank rate. It is very expensive both in the servicing of the National Debt and in the external account. For instance, the new Treasury bill rate of roughly £6 12s per cent is a clear indication of the heavy cost of the new Bank rate to the Exchequer. Looming ahead, too, is a possible conversion offer in connection with the £503 million of maturing 2½ per cent Serial Funding Stock, the terms of which are due soon.

On the external side, the higher rate of interest payable on the sterling balances has effectively added some £40 to £50 million to the wrong side of the balance of payments account. Whichever way one looks at it, the cost is heavy and continuing. That leads one to speculate on the probable length of time over which the 7 per cent Bank rate will last. If it were to last beyond the short-term, its deflationary effects would certainly be damaging to industry and trade. The higher cost of borrowing would steadily infiltrate into all sections of life. The cost of borrowing on the capital market would become almost prohibitive, interest offered on National Savings would have to come into line, hire-purchase charges would rise and building societies would have to reconsider both their borrowing and lending rates. Yet, the mere fact that the Bank rate has been forced up so sharply is surely a point in favour of a short duration.

On the other hand, the overdraft freeze is less welcome. As in the past, deserving cases, viz. expanding small- and medium-sized businesses will tend to suffer most. While the further twist given to the Capital Issues Committee screw appears to weigh against the larger firms. These imperfections must be accepted, however, in the knowledge that the overall supply of money is being checked at one of its growing points.

All in all, the CHANCELLOR's words and the deeds with which he matched them, are impressive. Only one remaining door still requires to be closed. The constant pressure of wage demands soaring far ahead of industrial productivity has been the root cause of much of the inflation injected into the economy in recent years. Past experience shows that Bank rate has, in the long run, proved to be an almost ineffective weapon against wage claims. What reason is there for believing that it will be effective this time?

Bank rate is *not* a magic talisman for the cure of all economic ills. It needs to be buttressed by firm policy elsewhere in the economy. In the end, therefore, MR THORNEYCROFT's policy will stand or fall by his success in dealing with wage inflation. The first signs of success have percolated through to the foreign exchanges with the £ immeasurably strengthened. The next condition may be more difficult to achieve: it is that restraint should be made to apply to wage increases equally with investment.

DECEASED AUTHOR'S ROYALTIES

Distinction Between Professional and Property Income

by LAURENCE WEBLEY, LL.B.

THE question of whether or not royalties received by a deceased author's executors, arising from contracts made during his lifetime, were liable to tax has been decided in the taxpayer's favour by the Chancery Court: *Carson (Inspector of Taxes) v. Cheyney's Executor* (18 T.R. 125).

The author concerned was Mr Peter Cheyney, the well-known writer. He had entered into a number of contracts to write books and one contract which concerned the publication in French of an existing work. Apart from the last mentioned, the books had not been written when the contracts were made and could not, therefore, be the subject of copyright. During the tax years 1951-52 and 1952-53, Mr Cheyney's executor received substantial sums as a result of these contracts.

The issue for the Court was whether these sums should be treated as payments for professional work made after the work had been done or whether, as the Inland Revenue contended, they were really payments for the use of property—the property, of course, being the author's copyright in the books.

The General Commissioners of Income Tax for the Bromley Division of Kent decided that the royalties were not taxable. The Crown appealed to the Chancery Division, relying on *Bennett v. Ogston* (9 A.T.C. 182; 15 T.C. 374). In that case a money-lender had died leaving outstanding promissory notes which brought in interest. It was held that the money-lender's executors were liable to pay tax on this interest under Case III, although the interest had been taxed under Case I as trade profits during the money-lender's lifetime. Similarly, the Crown argued, royalties outstanding at the death of the author might be taxed under Case VI.

Stainer's Case

On the other hand, the executor relied on *Stainer's case—Purchase v. Stainer's Executors* (29 A.T.C. 74; 32 T.C. 367). There, the film actor, Leslie Howard, entered into contracts to act in certain films. Part, at any rate, of his payment for doing so was to be related to the profits made by the films. The arrangement, therefore, was almost identical with that usually made in respect of an author's royalties.

Their lordships said that the arrangement amounted to a contract for personal services. The written contracts were merely the machinery by which the actor's services were to be paid. When the actor died, he had completely fulfilled his part of the contract and the results of his acting were still being exploited. The House of Lords held that, in consequence, the payments made after his death were residual receipts resulting from his professional activities and not subject to taxation. As they were payments in respect of professional remuneration they could only be taxed under Case II. It was admitted that taxation must come under that case when the professional activity was ended by death, and consequently the Crown could not tax the same payments again under Case III or VI.

Royalties are Professional Income

His lordship said that, so far as the contracts to write books were concerned, the royalty payments should be treated as professional remuneration to the author for his services to be rendered in writing the books for which the contracts had been made. In these cases there was nothing in the nature of copyright to be exploited like the money in the case of the money-lender.

As to the contract for the book to be published in French; this was not a contract in respect of services to be given but a contract for a licence to be granted. But while saying this his lordship nevertheless indicated that he considered the distinction too fine and that, in his view, all the contracts should be regarded as part of the professional activities of the author. Such activities ought to be taxed year by year; if the Crown did not take these potential receipts into account while the professional activities were continuing it must be taken to have exacted all the tax and could not, by appealing to another case, exact further tax for the same activity.

He dismissed the appeal.

The distinction between professional work and the exploitation of property may often be difficult to draw. While this ruling is of importance to authors, it is also capable of wide application to professional earnings generally and should be helpful in resisting attempts by the Inland Revenue to widen still further the tax liability of professional incomes.

AN INSURANCE BROKER'S VIEW OF CARBS

by G. L. ENTWISTLE, A.C.A., A.C.I.B., and D. W. HAYDEN

PREVIOUS issues of *The Accountant* have given details of CARBS—the Chartered Accountants' Retirement Benefits Scheme—and have to a certain extent compared the benefits available under that scheme with those which can be obtained by the general public in the insurance market. This article examines the scheme from an insurance broker's viewpoint and we hope the comments and comparisons will be of interest to members.

There is no doubt that the scheme has several attractions—the terms under all the sections being among the best obtainable for the particular classes of contracts—and includes a most important feature whereby a guarantee of future rates at present levels is offered under sections A, B and C.

It is necessary to examine in detail each section under the scheme in order to make a satisfactory report and comparison of the terms offered.

Section A—Retirement Pension Policy

This section of the scheme will probably be the most popular with chartered accountants as it will produce the maximum guaranteed retirement pension to the man himself. This single premium form of contract is the most suitable for the man whose income is liable to fluctuate to a large extent.

A contribution under this section is invested as a single premium in a without profit pension policy securing a retirement pension for the member and providing for a return of premiums with interest at 4 per cent in the event of death before pension age. There are guaranteed options to draw the pension at any age between 60 and 70 and the member may also convert the single life pension to a smaller pension payable during the joint lifetime of himself and his wife (or a named adult dependant) and the lifetime of the survivor of them.

Comparison of rates

The rates offered are fairly competitive but nevertheless, at the present time they can be bettered by effecting individual contracts in the insurance market. The following is a comparison of the benefits received by payment of a single premium of £100 under the scheme and under policies offered by three selected life offices:

BENEFITS RECEIVED BY PAYMENT OF SINGLE PREMIUM OF £100

Age next birthday	Annual pension at 65			
	CARBS	Office A	Office B	Office C*
	£ s d	£ s d	£ s d	£ s d
35	31 12 0	35 12 0	37 12 0	34 10 0
45	21 7 0	23 13 0	23 13 0	22 17 0
55	14 8 0	14 13 0	14 17 0	14 19 0
60	11 17 0	11 12 0	11 16 0	11 19 0

* Minimum premium accepted by Office C is £500.

In the event of death occurring before pension age all of the above contracts provide for a return of the premium paid with accumulated interest at 4 per cent per annum compound.

Under the chartered accountants' scheme, any member who makes an investment of at least £50 to any of the first three sections on or before June 30th, 1960, obtains a guarantee that he will always be able to invest future premiums at the present rates based on his age at the time. The life offices are not generally prepared to give this guarantee under their normal policies and in the few cases where a guarantee is given, the rates are considerably less attractive than those offered under the chartered accountants' scheme. Consequently, any policies which can now be effected at better rates would not carry such a guarantee. The importance of this attractive feature of the chartered accountants' scheme cannot be over-emphasized as it can be assumed that if and when interest rates fall, the rates of pension offered by the life offices will be less attractive than at present. In view of this, it is essential that every member makes at least the minimum contribution to the chartered accountants' scheme in order to obtain the advantage of the guarantee. However, it is obviously desirable, if he wishes to obtain the best value for his investment, that he should take advantage of any better rates that may be available from time to time by investing the balance of the allowable premium in the insurance market.

A comparison of the total pension secured by effecting a series of single premium policies at present rates with that purchased under a without profit renewable premium contract shows the advantage to lie with the former method. However, an insurance broker would normally only recommend that single premium contracts be effected if it is possible to fall back on a scheme

such as that produced by the Institute whereby a guarantee of future rates is obtainable.

Although the chartered accountants' scheme is written on a 'without profit' basis, it is possible to effect contracts which participate in any future bonus distributions of the life office. However, under single premium policies an actuary is, to a large extent, aware of the terms on which he can invest the premium and therefore does not have to make conservative estimates in the calculation of the rates as in the case of renewable premium contracts; consequently, it is felt that when effecting such single premium policies there is no advantage in adopting a with-profit basis.

Return on death – with or without interest

In the event of the death of a member under this section of the scheme, there would be a return of premiums with interest at 4 per cent per annum, and the rates for the life offices set out above are on a similar basis. It is interesting to note the effect of such accumulation on payment of a series of premiums of £100, as follows:

Death occurring at the end of period of	Accumulation of single premiums of £100 each with 4 per cent compound interest
5 years	£ 563
10 "	1,248
15 "	2,082
20 "	3,096
30 "	5,832

Any such return paid as a lump sum on death would be aggregated with other assets for estate duty purposes, although if the return be applied to secure a widow's pension, estate duty would be avoided under present legislation.

However, this interest feature may not be required, and if it is deleted, the premiums alone being returned, a larger retirement pension would accrue. The following is a comparison of the pension secured under the chartered accountants' scheme (providing for return with interest) and a selected life office, under which premiums would be returned on death without interest:

Age next birthday	Pension secured by series of single premiums of £100 per annum up to age 65					
	CARBS (With interest)			Specimen life office (Without interest)		
	£	s	d	£	s	d
35	568	1	0	629	6	0
45	301	13	0	319	6	0
55	121	12	0	124	0	0

Section B – Retirement and Widow's Pension Policy

Premiums paid under this section will be invested in a without profit renewable premium pension policy securing a retirement pension at a specified age and a pension of like amount to the widow in the event of death whenever that may occur, even if it is, for example, the day after the policy has been effected. The amounts of the premiums payable are restricted to the same limits under the Finance Act so that an investment under this section of the scheme will produce a smaller retirement pension.

As far as can be ascertained, the rates offered for this type of contract cannot at present be bettered by effecting an identical non-profit policy in the insurance market, and therefore chartered accountants who desire the maximum *guaranteed* pension will undoubtedly be well advised to arrange this through the scheme. As these policies are on a renewable premium basis, the question of guarantee of future rates does not arise except in so far as they relate to any possible increase in the amount of the annual investments.

Comparison of rates – with and without profits

It is interesting, however, to compare the benefits received under the scheme, which is on a without profit basis, with those which are available in the insurance market under a with-profit policy. The following comparison is made on the basis of an annual investment of £100 up to age 65 by a member whose wife is the same age as himself:

Age next birthday	CARBS	Insurance market		
	Retirement pension and widow's pension	Widow's pension	Retirement Pension	
			Guaranteed minimum	Estimated*
	£	£	£	£
35	330	308	308	420
45	186	179	179	217
55	85	80	80	87

* The estimated retirement pensions assume a continuation of the present rate of interim bonus.

As has been mentioned above in examining section A, the actuary of any life office must utilize a conservative rate of interest in calculating the rates of premium under a renewable premium policy because he is not aware of the terms on which future premiums will be invested; therefore, unless a chartered accountant is particularly anxious to have a policy providing entirely guaranteed benefits, it is likely to be to his advantage

to go into the insurance market and effect a with-profit policy.

Return on death – alternative contract

One comment which should be made is that this type of contract, whether effected under the chartered accountants' scheme or in the insurance market, does not provide for a return of any of the premiums paid under the policy in the event of the death of the member before pension age, his wife having died previously. Certain life offices have issued special contracts which to some extent overcome this feature.

Section C – Policy Incorporating Disability Pension

An investment under this section will be made in an annual premium pension policy securing a retirement pension commencing at age 65 and, in addition, providing that should the member be incapacitated before the normal pension commences, he will receive two-thirds of the normal retirement pension. If incapacity occurs after age 60 the pension would not be less than the normal early retirement pension. The retirement pensions secured from age 65 for an annual premium of £100 are as follows:

Age next birthday	Retirement pension
35	£ 521
45	282
55	116

For comparison purposes, the total pension secured under section A by a series of single premiums of £100 each invested from age 45 to 65 would produce a total pension of £301 13s od.

There is a limited market for policies including an incapacity benefit and it appears that the rates offered under the chartered accountants' scheme cannot be bettered. It seems that there has not been any great demand experienced for this specialized form of policy written under the 1956 Finance Act, and it is generally felt that the reason for this is the extremely narrow definition of 'incapacity' which has to be permanent for the benefit to be payable. However, chartered accountants who particularly wish to effect policies of this type would be advised to do so under the chartered accountants' scheme.

Section D – Investment-Trust-Unit Policy

As has been described in previous issues, an investment under this section secures a special policy which is issued by the London & Man-

chester Assurance Co Ltd and under which the benefit is expressed in terms of investment-trust-units and not in £s sterling. The premium paid each year secures a number of investment-trust-units according to their price at that time, and the ultimate pension benefit depends on the total number of units that have been purchased and the price at which such units can be sold at the time the pension payments are made.

The contract is written on a single premium basis and the rates offered are as set out below. These rates are based on the payment of a single premium equal to the price of 100 investment-trust-units.

Age at which contribution is paid (next birthday)	Annual pension from age 65 expressed as number of investment-trust-units	
	At commencement of the scheme	Guaranteed minimum for future investments
(1)	(2)	(3)
35	22.6	20.0
45	16.2	14.4
55	11.4	10.2

The pension would be payable for the guaranteed minimum period of five years and thereafter for life. Under the chartered accountants' scheme the pension would be payable monthly in advance and the minimum premium that is accepted is £100. The scheme provides that the rates shown in column (2) above will be available until December 31st, 1960, and members who have allocated a contribution to this section before that date will receive a guarantee that future investments will be applied at rates no less favourable than those shown in column (3).

Similar policies can be effected with the same assurance company by a member of the general public at the same rates, although the minimum premium that is normally accepted is £200. Such policies would similarly contain guaranteed minimum rates for future investments and on contracts issued at the present time these are identical with those shown in column (3) above. However, if it is found necessary to amend the present rating available to the general public, this may also affect the guaranteed minimum terms for future investments under new policies, whereas under the chartered accountants' scheme both the commencement rates (column (2)) and the guaranteed minimum future rates (column (3)) are available for policies effected prior to December 31st, 1960. It is rather strange to note, however, that the policy offered to the general

public provides for the pension to be payable *quarterly* in advance, and this is, of course, a slight advantage.

In the event of death occurring before the pension commences, there would be a return of the premiums paid expressed in pounds sterling and not on the investment-trust-units secured. A premium will only be accepted from a member over age 50 provided he waives the right to commence the pension before expiry of a period of ten years.

This special form of policy has been designed to combat the effects of inflation since it may be assumed that as the value of money falls the price of investment-trust-units and the monetary equivalent of the pension will increase. On June 29th, an article in *The Accountant* gave a simple example showing that the price of investment-trust-units must rise by approximately 35 per cent in the next twenty-five years if the cash amount of the annuity under section D was to be equal to that obtained under section A.

If, as a further illustration, it be assumed that the future price of the units will each year increase by $2\frac{1}{2}$ per cent, a man aged 40 who pays £100 in cash each year would at age 70 receive a pension, which expressed in sterling, would be £753, if the guaranteed minimum rates be utilized. Assuming a continued increase in the price of the units, the sterling equivalent for this pension would continue to increase as each payment of pension was made. A similar investment in an ordinary with-profit pension policy, with the premium and benefits expressed in £s sterling, would produce an estimated pension of £812 from age 70.

The increase in the price of the units assumed in the second example would be equivalent to approximately one-quarter of that actually experienced in the last ten years. If, therefore, the view is taken that the recent inflationary trend is likely to continue, an investment in this special form of policy can be recommended. However, the London & Manchester Assurance Co Ltd themselves suggest that only a proportion of the allowable premium should be invested in this contract, the balance being paid to a conventional policy under which the premiums and benefits are expressed in monetary terms.

General Considerations

Under the chartered accountants' scheme, if a member at any time makes an investment to section B, any return of premiums payable on his death under any other section could not be taken as a capital sum but must be applied to

secure a widow's annuity. This is a restriction imposed by the Inland Revenue authorities on trust schemes but does not, of course, apply where policies are effected direct with the insurance companies.

The explanatory booklet issued by The Institute of Chartered Accountants in England and Wales, describing their scheme, suggests that members may find it convenient to obtain their main benefits under sections B and/or C and to supplement these by variable contributions under sections A and/or D. This may, in general, be regarded as a sound suggestion, but it appears that the popular demand in other professions is to secure the maximum retirement pension and this would only be obtained within the scheme on a guaranteed basis if the whole allowable premium were each year invested in section A.

An insurance broker's advice to his clients may therefore be summarized as follows:

- (a) At least £50 should be invested before June 30th, 1960, in one or more of sections A, B or C in order to obtain the guarantee of rates quoted under these sections.
- (b) If a member wishes to invest in a contract as offered under section C (including incapacity benefits) he should do so under the chartered accountants' scheme, unless and until more favourable rates are offered in the insurance market.
- (c) If a member is proposing to invest in a contract similar to that offered under section D, and if the amount of the investment is at least £200, he can at present obtain slightly better terms by arranging the contract outside the chartered accountants' scheme. However, attention is drawn to the detailed consideration given earlier in this article of the guarantee of future rates under this section.
- (d) A chartered accountant who wishes to secure a policy on exactly the same terms as those offered under section B, should do so through the chartered accountants' scheme, but on the other hand, it is felt that policies with alternative attractions are available in the insurance market.
- (e) Any premium that would otherwise be invested under section A can at present be applied to secure a larger pension by effecting a policy in the insurance market.

It would seem, therefore, that chartered accountants would be well advised to consult an insurance broker, who is aware of the continually changing types of policy and rates that are available, before entering into any contract, in order to ensure that he will be obtaining the best value for his money.

BUSINESS ORGANIZATION AND THE PUBLIC ACCOUNTANT

by J. E. HARRIS, B.Com., F.A.C.C.A.

A paper presented on Wednesday, September 11th, in Amsterdam, at a business session of the Seventh International Congress of Accountants.

The Purpose of the Paper

THE purpose of this paper is threefold and its divisions can broadly be enumerated as follows:

- (1) To examine the extent to which the internal organization of a business affects the certificate given by a public accountant in his capacity as auditor.
- (2) To study whether a 'business organization' is itself a suitable subject for appraisal - that is to say, whether the organization, as distinct from the financial transactions and results thereof, can be evaluated or audited so that a certificate as to its efficiency could be given by a public accountant.
- (3) To discuss - if 'business organization' is found to be a suitable subject for auditing - whether it is practicable and/or desirable for a public accountant to extend his customary audit in this respect; and whether such an extension of an audit ought to be made compulsory by law or whether it ought to be treated only as a possible additional service of the public accountant available if requested.



Mr J. E. Harris

To ascertain the extent, if any, to which the internal organization of a business affects the certificate to be given by the auditor, it is obviously necessary to set down and to examine exactly what the auditor is required by law to state in this audit report. The main relevant requirements of the Companies Act, 1948, in this connection are as follows:

- (1) Whether they (the auditors) have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit.
- (2) Whether, in their opinion, proper books of account have been kept by the company, so far as appears from their examination of those books, and proper returns adequate for the purposes of their audit have been received from branches not visited by them.
- (3) (1) Whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.
- (2) Whether, in their opinion

and to the best of their information and according to the explanations given them, the accounts give the information required by the Act in the manner so required and give a true and fair view:

- (a) in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year; and
- (b) in the case of the profit and loss account, of the profit or loss of its financial year.

It is clear, therefore, that there is a minimum amount of information which the auditor must be able to obtain before he can satisfy himself sufficiently about the affairs of the company to enable him to give a full and unqualified audit report. It is also obvious to generalize, that the efficiency or otherwise of the organization clearly has a bearing on the amount of work which the auditor must perform before he can

Customary Financial Audit

Throughout this paper discussion will be restricted to what are known in the United Kingdom as limited companies, since the audit of these companies is obligatory by law. Such audits have been required by law in the United Kingdom only since 1900 and the most recent legislation affecting the law relating to the audit of companies was enacted in 1948. The vast majority of businesses and bodies other than limited companies are not subject to a compulsory audit and therefore have freedom of action in deciding the limit and scope of the duties of their auditors if any; therefore, if this restriction were not placed on the discussion the permutation of possibilities would be such as to necessitate continuous qualifications distracting to the main theme.

feel satisfied as to his ability to give his report. To set a limiting case, varying with the size and nature of the business there is plainly a set of conditions which, irrespective of the amount of detail work performed by the auditor, are such that it would be impossible for him to satisfy himself as to the state of the company's affairs at the end of the financial year or as to what is a fair view of the profit or loss made by the company during its financial year.

Apart from this it will have been noted that the auditor is required to report upon the adequacy of the books of account. This, of course, constitutes a further minimum requirement which, if not satisfied, must lead the auditor to qualify his certificate. Having regard to this, it is certainly within the spirit of his function, although beyond what the letter of the law requires, if the auditor advises at the earliest possible moment as to what he considers to be the least efficient parts of the business organization, and what changes are, in his view, the minimum necessary to enable him to give an unqualified certificate, bearing in mind his statutory duties. The advantages of this course of conduct require no elaboration.

In my opinion, to this extent and this only, it is the function of the auditor as such to give advice. As will be seen later, I am of the opinion that the public accountant can make an increasingly valuable contribution to business organization and thereby more widely benefit the national economy. However, both in practice and theory, I think it vital to maintain as a separate and distinct function the work of the public accountant in his capacity as auditor from work which is either voluntary on his part or requested of him in extension of that necessitated by the audit. My view of the need for maintaining this clear division of duty results from the structure of companies and the reason for and purpose of the appointment of auditors. It has to be recalled that auditors are appointed by the shareholders of a company to report to them and therefore to confirm the accuracy or otherwise of the financial results of the organization presented by the officers of that organization. It is true, of course, that in a very large number of small companies the directors and shareholders are the same people. Nevertheless it would be both impractical and, in my view, a retrograde step for the present legal requirements of an audit report to be variable according to the size of the business. Furthermore, in my opinion, the present obligations are the minimum irrespective of the size and nature of the company concerned. If these views are sound, it follows that the shareholders must receive regularly from an unbiased qualified observer his views on the financial results and position of the company entrusted by them to the directors. Moreover, the increasing size of business organizations is resulting in an ever growing number of cases where the only link with the company of the majority of its directors is in their capacity as directors, so that in effect the board to which has been entrusted the running of the company in turn passes on that trust in all respects except

overall policy to the various executives of the company. This, in my view, strengthens the need for an impartial annual review, which is in essence the content of the annual audit by an independent public accountant. To summarize, therefore, the public accountant in his capacity as auditor is called upon to report on what has happened and not to give advice or to say what might have happened if an alternative set of circumstances had been in existence.

The Extent to which a Business Organization Determines the Course of an Audit

The minimum limit already having been noted in relation to the inefficiency of a business organization it is apparent that the better and more efficient the organization the greater will be the help it can give to the auditor in his annual review of the financial results. For example, bearing in mind the size and multitude of operations in most businesses, the system and extent of internal check within the organization is of importance to the public accountant when assessing the amount of detailed checking which he feels it necessary to perform in the course of the audit. Apart from the needs of the auditor, it is also plainly in the interests of the organization itself, firstly to arrange its affairs so as to reduce the possibility of fraud within the organization, and secondly to show the results of established policies as early and as continuously as possible. To this extent the internal and external audits are often complementary and interdependent in application. Furthermore, the definition of responsibility within the organization, the segregation of duties according to measurement and control, the creation of objective and standard conditions so that variances therefrom can be quickly noted and explained, the planning, routing and scheduling of information are all factors which the public accountant, as the external auditor, would take into account in determining his approach to and the extent of the audit. To put this particular aspect briefly, therefore, for practical reasons the larger the organization the greater is the necessity for the external auditor to rely on sampling rather than exhaustive checks.

To summarize this section, in my view, whilst the structure and efficiency of the organization can materially assist and determine the approach of the public accountant in his capacity as auditor this does not, and should not, take away from him any part of his ultimate responsibilities to the shareholders who have appointed him. Thus the relationship of the auditor to the shareholder is one of kind and not of degree whilst the extent to which a business organization determines the course of an audit is one of degree and not of kind.

Business Organization - Subject for Evaluation and Audit

Having argued the case that it is not a function of the auditor, as such, to give advice except within the strict limits discussed, it is now necessary to consider

whether the duties of the auditor can and ought to be extended so that his certificate would cover not only the financial results of the organization but the efficiency and structure of that organization. However, before attempting to discuss that question it is first necessary to decide whether methods and organizations of business can be usefully evaluated and whether, therefore, they could reasonably be brought within the scope of an audit.

The study of workshop methods has long been accepted as necessary to achieve efficiency, but the need for examining what may briefly be termed the administrative organization, methods and clerical routine has become widely recognized as a necessity only in relatively recent years. Most public accountants would, however, agree that there is, from their own experience, considerable evidence of the need for an examination of many of their clients' clerical routines and procedures; inevitably unless an organization is reviewed from time to time, parts of its structure and many of its routines are retained long after the need for them has disappeared or long after the circumstances which brought about their existence have considerably changed. This growing need for a regular or even continuous examination of methods and appraisal of results has given rise to the development of internal auditing as a tool of management control. Formerly the prime purpose of internal audit was the detection and prevention of fraud together with checking the accuracy of numerous accounting entries; these functions are now more usually and more aptly described as internal check. In the largest undertakings the internal audit department is further segregated from the organization and methods section, the latter being concerned primarily with the efficiency of procedures whereas the former concerns itself mainly with the results of those procedures. Thus there has been evolved a method of appraising the results of established policies and of assessing to what extent those policies have been implemented.

However, evaluation and audit are not synonymous; evaluation necessitating an element of opinion to a far greater degree than is consistent with what is normally meant by auditing. In order to evaluate or to appraise, it is first necessary to know exactly what are the required or desired objectives as well as the policy that has been established to achieve them. The objectives may well vary from business to business and it must always be remembered that the origination of policy is the prerogative of management alone. Perhaps it may be agreed that given the desired results and an established policy as basic premises, in theory at least there is possible the most efficient method to achieve those results. If that were the case it would be possible to audit—in the sense of verifying facts—and thus compare what had taken place with what it was assumed ought to have happened. But even if this argument is sound in theory, in my view the complexity as well as the magnitude of operations

remove the possibility of objectivity and therefore one of the essential requirements of audit in practice.

Thus, to summarize this section whilst I believe there is equally a need for maintaining a review of the organization and clerical procedures as there is for the surveillance of workshop and general production methods and procedures, it is nevertheless submitted that their evaluation can never be as objectively audited and reported as can the financial results of an undertaking. In the last analysis the possible results of alternative methods are dependent on subjective and not objective tests.

Extension of Compulsory Audit

Having reached the conclusion that a firm's organization and methods together with the results thereof ought to be regularly appraised, it is now necessary to examine whether such an appraisal should be made part of an obligatory audit.

My view is that an extension of a statutory audit in this direction would be unsound both in theory and practice. First to generalize: the less objective it is possible to make an evaluation, the more do the conclusions drawn depend on the calibre and training of the person making it. To generalize further, the more the conclusions are based on opinion rather than fact the more dangerous is it to require these conclusions to be stated as a matter of law. Secondly, it is usually the case that there is more than one solution to or method of dealing with any business problem. Thus, anybody appraising organization and methods can never achieve more than to contrast the results not with alternative facts but with what he imagines would have been the results if different methods had been adopted. There would be, therefore, the possibility if such an audit were to take place annually or at other regular intervals, of there being continuous doubts as to the efficiency of the directors raised in the minds of shareholders, themselves unable to appreciate the full significance of various factors involved. The directors, on the other hand, would constantly have to defend policies, without, for obvious practical reasons, being able to acquaint shareholders with the full details or circumstances which determined the policy. If, alternatively, the report following such an audit were couched in terms so as to avoid any criticism of the methods already adopted the auditor's work may easily degenerate into a time-wasting and meaningless exercise. Thirdly, and in my view of more fundamental importance, is the need to ensure that responsibilities and power do not become divorced. The directors of a company ultimately have to bear the responsibility for the satisfactory running of a business and it is therefore essential that they should have the ultimate power—not only in theory but in practice. In my opinion it would place the directors in an invidious position if they were subject to constant surveillance by statutory auditors who were in a position to state what in their view ought to have been done. The

directors can in one sense be regarded as trustees of the shareholders and it is on the basis of factual results and not on possible alternative achievement that they should be judged by those shareholders.

Possible Extension of the Function of the Accounting Profession

I now turn to whether it is useful and/or desirable to utilize the public accountant in reviewing and commenting upon the organization and procedures of a business, not as part of any obligatory audit but as a function suggested either by the public accountant himself or requested by the company concerned. In my view it is desirable particularly where an internal audit is not already established that such an extension of the public accountant's work should take place. It therefore remains to be discussed whether such work should be performed by a firm of public accountants specializing in this field or whether it ought to be undertaken by what may be described as the 'public accountant general practitioner'. In the latter case this could mean either the company's auditor for statutory purposes or another public accountant but one not necessarily specializing in this particular work.

Dealing first with the specialist firm, there has been, particularly since the last world war, a considerable development in this field in the United Kingdom though there are now but a handful of large leading firms in this connection. There has been, however, in my country a further development whereby some of the larger firms of public accountants have set up within their organizations departments which specialize in what has become known as management consulting. Bearing in mind the increasing breadth of knowledge which is now required of the general practitioner in relation not only to audit but also particularly to taxation, bankruptcy and company law, it is probably too much to expect him also to be a specialist in the fields of management accounting, costing and business methods.

One of the main advantages of employing the specialist management consultant introduced by a company to report on its 'organization and methods' is that a clear division between that of audit for the benefit of shareholders and that where a report is prepared primarily for the assistance of the directors is thereby maintained. On the side of experience, the specialist management consultant is normally somebody who has had not only an accounting but also an industrial training and therefore is much more in a position to envisage the detailed implications of a policy which he may suggest, than is the public accountant who has received his training and experience in the field of public accounting.

Moreover, in my view, the study and training required for the purpose of the current professional accountancy examinations are not ordinarily calculated to give the public accountant the psychological approach necessary for dealing with the problems of management accounting. Although the outlook

and examinations of the public accounting bodies may be slowly changing, nevertheless the public accountant is necessarily more concerned with results of the past rather than the expectations of the future; an audit necessitates his concerning himself with what has happened rather than what is likely to happen. On the other hand, when dealing with the problems of organization, methods and management accounting the results of the past are primarily utilized and considered only as a tool in the hands of management in order that they may better judge what course of action to follow and what results it is hoped will be achieved in the future.

In practice, however, apart from the limited availability of specialist firms, the size and nature of a very large number of businesses is not such as to warrant or make economic the employment of specialists; furthermore, not having been used to this service in the past many managements would not be conscious of its existence or aware of its potential benefit. From a practical viewpoint, therefore, it is clear that the general practitioner has a wide field of action in this particular sphere and, provided a harmonious relationship can be established, there does not appear to be any theoretical objection to such advisory work being undertaken for a company by a public accountant who is not the auditor of the organization concerned. On the other hand, it would seem that the statutory auditor is, in these circumstances, better qualified for the task as his general background knowledge of the organization and of the personalities within it may to a considerable extent offset his lack of theoretical training in this particular sphere. Furthermore, as previously emphasized, this work must necessarily be kept separate from that in connection with the statutory audit; nevertheless, during the audit he is in a position to obtain information and detail which would be of inestimable value to him when advising on the organization. His experience, rather than this training, would enable him to be of considerable help to a client in an advisory capacity and moreover the employment of the one public accountant for the two purposes may well result in economies to the company concerned.

Conclusion and Summary

In conclusion and to summarize, it is my view that the present statutory audit function of the public accountant should remain carefully segregated from any other service he may render his clients. Whilst I believe that the organization of a business is a subject for evaluation, nevertheless I do not think that it should be included as part of a statutory audit. Finally, although I acknowledge the pre-eminence of skill of the specialist, I believe that the accounting profession through the public practising accountant can make an increasingly valuable contribution to the industrial and commercial world. The present generation has seen the start of a development which I hope and believe will continue.

Weekly Notes

I.M.F. Annual Meeting

There were signs of a strong cleavage of opinion between this country and the United States as regards international currency problems, at the opening sessions of the International Monetary Fund's annual meeting in Washington. The Americans take the view that the basic problem is inflation and that this must be tackled by individual countries. They see no serious shortage in international liquid funds. This is in contrast to the British point of view which emphasizes the dangers of the world shortage of American dollars and German marks.

The British have gone to Washington with the intention of securing agreement, if they can, to offset the consequences of a growing dollar gap by increasing the resources of the International Monetary Fund. The Americans began the opening session of the annual meeting by producing statistics to show that the dollar gap had been eliminated in the second quarter of this year thanks to increased American investment overseas. The British are not likely to have been very impressed by the figures, partly on the grounds that one swallow does not make a summer and partly because much of the United States investment has gone into Venezuela which had substantial currency reserves before this investment began.

The British will have to settle their differences alone with the Americans so far as Western Europe is concerned, for the Finance Ministers of Germany and France are both absent. It may well be, therefore, that the Americans will argue that the German mark is a European problem and must be solved by the members of O.E.E.C. This is bound to refer the issue back to Europe for there is not a sufficiently powerful collection of political heads in Washington from Western Europe to discuss the problem at the annual meeting of the I.M.F. The main advantages of these annual meetings of the Fund have been that they provide a meeting place once a year for a world review of international economic conditions by Finance Ministers. If Ministers continue to absent themselves the prestige of the I.M.F. is bound to be seriously affected.

World Bank Annual Report

During the fiscal year ended June 1957, the World Bank lent over \$214 million, according to Mr Eugene R. Black, President of the Bank, in his annual statement. It is noticeable that Asia has received more loan capital in the past fifteen months than any other continent. This volume of lending was made possible by considerable additions to borrowed funds. A record rate of borrowing was established last year at \$325 million. While this loan capital has usefully increased the Bank's resources, the President has had to draw attention to the large sums still not yet

released under the 18 per cent capital arrangement entered into by member States. The year's net earnings of £36 million were a record.

In his address, Mr Black dealt mainly with inflation, shortage of development capital and waste of resources. On the last he emphasized the importance of carrying out development projects with due regard to economic and less attention to short-range political considerations. He singled out public utility financing as an example of waste where money is being used to subsidize cheap power to industries which can well afford to pay an economic price. He also had something to say about the tendency for Governments to try to do too much with limited resources. He deplored particularly the tendency for Governments to branch out into fields of activity where private enterprise would be more suitable.

Life Offices on Pensions

A booklet called *The Pensions Problem* has been issued by the Life Offices' Association and the Associated Scottish Life Offices which sets out certain principles on pensions from the Life Offices' point of view and a comment on the Labour Party's recent proposals. The first section deals with the general principles. The Associations point out that every pension has to be paid for by somebody, at some time and in some defined way. The differences between private and State schemes arise from differing arrangements for meeting the costs. The main point of difference is that in a State scheme to support the elderly 'the State is not requiring people to make an insurance contribution properly related to its benefits; it is in fact imposing a charge which is a form of redistribution of income'. The Associations do not deny the need for such a redistribution of income in favour of elderly people but they say emphatically that it should be called a tax and that it should not be confused with an insurance contribution, even although its payment gives a moral right to pension benefits later. The Associations are also against the provision of State pensions beyond the level of basic requirements. They think that pensions should be the same for everyone under such a State scheme and that one section of the community should not subsidize another above a certain level.

Reviewing the Labour Party's proposals, the Associations say that the cost of the scheme would be much higher than estimated. They think that people would not only have less net income out of which to save but also less incentive. The proposals for an automatic cost-of-living adjustment are ill advised and would provide a further stimulus to inflation. Finally, they say that the introduction of the Labour Party's scheme would give a sudden and severe shock to the national economy, and the immediate effect of the proposed heavy charges on employees and employers would be inflationary.

Save as you Earn

To step up savings and savings group membership in the field where possibly the best opportunities lie, the National Savings Committee is inaugurating on Tuesday next, October 1st, a 'Save as you earn' campaign in places of employment.

The Committee consider that accountants could aid the drive by encouraging the formation of a savings group or club among their staffs or clients and by recommending National Savings schemes and securities. Group saving by deductions from pay, cash collections, or other organized means where they work offer the employees the opportunity of saving conveniently and regularly.

National Savings schemes in places of employment are easy to operate and can be adapted to suit different circumstances. Two recently formulated schemes are designed to help employees to buy

Premium Savings Bonds. The first, known as the bulk-purchase scheme enables an employer to buy blocks of pre-dated Premium Bonds to which the employees subscribe by instalments; the second, called the schedule scheme, allows group secretaries to buy the bonds at a Post Office or Trustee Savings Bank on behalf of members.

There are also two single joint-contributory schemes by which employers can encourage workers who are not covered by a pension scheme to save for marriage or retirement through the purchase of Savings Certificates with their tax-free interest.

Local Savings Committees and National Savings District offices throughout the country will help and encourage employers and employees to take part in the campaign which has the support of the Chancellor, the T.U.C. and the Employers' Confederation.

Current Law

The Dangerous Employee

How onerous is the duty which the employer owes towards those whom he employs not to subject them to risks from the acts of their fellow employees, is illustrated by the unusual case of *Hudson v. Ridge Manufacturing Co Ltd* ([1957] 2 All E.R. 229). The plaintiff in that case was injured through a foolish prank played on him by one of his fellow workmen. There was evidence that this was not an isolated case of horse-play on the part of the offending workman but that he had on many occasions been warned and reprimanded and told that someone would be likely to be hurt as a result of his conduct. Streatfeild, J., held that it was not enough that the defendant company had reprimanded and warned the offender: the danger to the plaintiff had not been removed and accordingly the defendant could not escape liability for the injury which the plaintiff had suffered in the course of his employment.

Whether or not Special Power Exercised

K., who died in 1919, directed his residuary estate to be held by his trustees, as to one half, upon trust to pay any income thereof to his daughter Mrs W. for her life, and after her death upon trust for her children or remoter issue 'to be born and take vested interests within twenty-one years after her death' at such times and ages and in such shares and in such manner as she should by deed or, deeds revocable or irrevocable or by will or codicil appoint. There followed a gift over, in default of and subject to such appointment, for Mrs W.'s children on attaining the age of 21 years or, in the case of daughters, earlier marriage, in equal shares. By her will Mrs W. gave

'all the residue and remainder of my real and personal

estate whatsoever and wheresoever whether in possession or reversion of which I may die possessed and including any property over which I may have any power of disposition at the date of my death'

to the trustee on the usual trust for sale and conversion and directed her trustee after payment of funeral and testamentary expenses, debts and legacies, to stand possessed of the residue upon trust as to one-third thereof for her daughter Mrs S., as to a further one-third share thereof for the children of Mrs D. (another daughter who had predeceased her) equally, and as to the remaining one-third share for the children of her deceased son in equal shares. Neither at the date of her will nor at the date of her death had Mrs W. any power of appointment, general or special, other than her special power under K.'s will. The question was whether she had, by her will, exercised the limited power which she had under K.'s will. In *Re Hayes, Turnbull v. Hayes* ([1901] 2 Ch. 529) Romer, L.J., observed that the intention to exercise a special power must be gathered from the whole will and that the authorities did not lay down any general principles. In *Re Knight, Re Wynn, Midland Bank Executive and Trustee Company, Limited v. Parker and Others* ([1957] 2 All E.R. 252) the Court of Appeal adopted the correctness of this observation and held that, as a matter of construction of her will, Mrs W. did not intend to exercise every limited power which she might have but only such powers as she might have at her death which would enable her to bring into, and to make part of her general disposable estate, for all the purposes of her will, property which was not, strictly speaking, her own: 'any power of disposition' should in its context be taken to mean 'any relevant power of disposition'.

Finance and Commerce

The investment upheaval caused by the increase in Bank rate to 7 per cent and the various 'directives' allied to that move has inevitably had profound effect on the stock-markets. Following an initial loss of some five points, the gilt-edged section has rallied, but industrial equities remain uncertain. The prospect of reduced industrial activity and further pressure on profit margins makes for considerable investment caution.

Beecham Detail

It is rather curious how in the giving of information to shareholders, one company manages with ease what another finds wellnigh impossible. There was the case of the Distillers Company recently: shareholders wanted to know the extent to which the newer developments—plastics, antibiotics, etc.—were contributing to the total profit. The Board took a lot of persuading before announcing this year that the new lines of activity brought in about 25 per cent and that the distilleries still provided some 75 per cent of group earnings.

The directors of Beecham Group Ltd have no such compunctions, as our reprint this week shows. The Beecham report gives total sales and the dissections which form part of the reprint. A separate diagram for home sales shows that the British public paid £31,751,000 for the Group's proprietary products and that after taking out 26.8 per cent for wholesalers' and retailers' discounts and 15 per cent for purchase tax, there remained £18,494,537 (as shown in the dissection) to meet supplies, wages, depreciation and other expenses (38.9 per cent), advertising (9.6 per cent), tax (5.5 per cent) and retained profits and dividends (4.2 per cent).

Overseas Trading

Goods sold overseas are for the most part made in Beecham factories in fifteen countries outside the United Kingdom. The total was £19,108,000 at current rates of exchange. Allowing 45.2 per cent for agents', wholesalers' and retailers' remuneration and sales tax, the remaining £10,479,347 (as shown in the dissection) went in supplies, wages, depreciation and other expenses (35.3 per cent), advertising (12.7 per cent), income and profits taxes (3.8 per cent) and retained profit and dividends (3 per cent). Of the Group's total income from sales of its products during the year, 36.2 per cent was represented by the £10,479,347 of overseas sales shown in the table.

The report gives a very interesting description of the foundation and development of 'Brylcreem'. In the first five years after its introduction, no money was spent in direct advertising but 'tens of thousands of gallons were distributed free to hairdressers for them to use in their shops'. Not until sales had reached 40,000 packages weekly was it decided to begin advertising.

Canadian and English

It so happened that our reprint of the accounts of Canadian and English Stores Ltd coincided with the annual meeting held, as readers will have noticed from the daily Press, in a stormy atmosphere. For two and a quarter hours, several hundred shareholders expressed their feelings in no uncertain manner, and the main business, the adoption of the accounts (with a loss of over a million) and the re-election of the retiring directors was taken to a poll. Finally, shareholders gave another twenty minutes, with the hall to themselves, to the formation of a committee of four, including two qualified accountants, to maintain close touch with the Board. Shareholders' demands for a committee were strongly opposed by Lord Milner, the chairman, until it was obvious from the vocal storm that the meeting was determined to have its way.

On one point in particular, however, shareholders were denied the right to know what was happening to the business. Lord Milner, while admitting that losses were continuing in the current year, now in its second half, refused to state what they were. It is a matter, no doubt, to which the shareholders' committee will give attention.

Lord Milner was asked for a separate balance sheet of the Canadian store side of the business (a suggestion made in this column) and agreed that more information might well be given.

It seems evident from a statement by Mr Harry Brooks, the managing director, that the business has been built on a much too narrow basis: consisting substantially of hire-purchase selling of furniture and radio to what in these days is called the low income group, with four years to pay and the goods delivered on payment of the first instalment.

In the month following the imposition of Government restrictions on hire-purchase (including the 20 per cent deposit rule), sales, said Mr Brooks, dropped by 80 per cent; and the company had been committed to an expansion plan, opening more branches (which take time to become established) and having to accept goods ordered from suppliers that could not be sold.

Undoubtedly, under such circumstances, losses begin to pile up. The business is now being broadened into the drapery trade on a cash basis.

Money Market

At the first Treasury bill tender following the Bank rate rise, the market syndicate's bid was £98 7s and the average rate was finally £6 12s 1.02d per cent. Applications for the £250 million of bills offered and allotted was £347,890,000 and this week's offer is £270 million. The rate proved to be close to the highest level anticipated and there is some expectation of a slightly lower level when conditions become fully readjusted.

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31st March, 1957

[illegible]

BEECHAM GROUP LIMITED

NOTES TO THE ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

- The trading profit of the Company and its subsidiaries includes income from trade investments amounting to £4,950 (£4,230).
- The charge for United Kingdom taxation is based on the profit for the current year of home subsidiaries and dividends receivable in respect of the current year from overseas subsidiaries. The charge for overseas taxation is stated after deducting double taxation relief.
- The following amounts have been received by directors and past directors in respect of their services to the Company and its subsidiaries.

	1955/56	
Fees	£4,281	£4,000
Management remuneration	£97,792	£85,856
Pensions	£6,908	£6,910

BALANCE SHEET

	1955/56	1956/57
Balances as at 31st March, 1956	£1,010,992	£1,227,497
Surplus on realisation of assets of subsidiaries liquidated in prior years	152,441	9,743
Reserves transferred from subsidiaries	—	618,833
1956/57 Profit retained	—	—
Balances as at 31st March, 1957	£1,163,433	£1,856,073

- Fixed assets are stated at cost, less depreciation provisions:—

	1956	1957
Depreciation provisions	£208,153	£149,180
Cost	£1,371,586	£1,995,253
Freehold land	25,488	25,488
Leasehold property	73,902	76,482
Plant and machinery	14,288	11,343
Furniture, fixtures and office equipment	76,507	185
Motor vehicles	17,968	35,018
	£208,153	£149,180

- The liability for current taxation at 31st March, 1957, includes profits tax for the year assessed on a group basis.

CONSOLIDATED BALANCE SHEET

- Movements on Reserves:—

	1956	1957
Balances as at 31st March, 1956	£1,570,106	£1,570,106
Surplus on realisation of assets and other adjustments relating to subsidiaries liquidated in prior years	—	152,441
1956/57 Profit retained	—	806,034
Balances as at 31st March, 1957	£1,570,106	£2,528,581

- Current assets and liabilities have been expressed in sterling at the rates of exchange ruling at 31st March, 1957, and other assets at the rates of exchange ruling at 31st March, 1956, or, in the case of subsequent additions, at the rates ruling on acquisition.

- The amounts set aside for future income tax cover United Kingdom Income tax 1957/58 estimated at £1,775,000 and the benefit of initial allowances. Further taxation in the United Kingdom and overseas would arise in the event of the remittance of profit retained by overseas subsidiaries.

- Formulae, trade marks, patent processes and goodwill are stated at 31st March, 1957, at £10,989,934 which amount is the excess of the cost of shares in subsidiaries over the Book value of the net tangible assets of the subsidiaries on acquisition.

- Fixed assets are stated at professional valuations mainly in 1946, or subsequent cost, less depreciation provisions:—

	1956	1957
Depreciation provisions	£227,543	£227,543
Valuations or cost	£10,287,153	£10,287,153
Freehold property	190,395	190,395
Leasehold property	14,027	14,027
Plant, machinery and laboratory equipment	1,422,302	1,422,302
Furniture, fixtures and office equipment	341,716	873,569
Motor vehicles	402,592	826,571
	£227,543	£227,543

- At 31st March, 1957, commitments for capital expenditure amounted to £650,000 (£266,000). £391,000 related to the purchase of the freehold of factories of which £347,000 is to be provided out of the proceeds of 15-year sinking fund policies in favour of the vendors.

HOME SALES OF GROUP PRODUCTS

	1953	1954	1955	1956	1957
Proprietary Foods and Beverages	£3,982,553	£4,395,383	£5,982,094*	£8,800,276	£8,755,034
Proprietary Medicines	3,031,462	3,525,384	4,132,413	4,174,889	4,623,048
Proprietary Toilet Products	3,933,513	4,243,671	4,514,446	4,816,278	5,116,455
	£10,947,528	£12,164,438	£14,628,953	£17,791,443	£18,494,537

*Includes 3 months' sales of the products of H. W. Carter & Co. Ltd.

HALF YEAR PROFITS

	First half year	Second half year	Year ended 31st March
	£ millions	£ millions	£ millions
1952/53	1.2	1.3	2.5
1953/54	1.5	1.6	3.1
1954/55	2.0	1.9	3.9
1955/56	1.8	1.9	3.7

EXPORT AND OVERSEAS SALES OF GROUP PRODUCTS

	1953	1954	1955	1956	1957
By types of product	£	£	£	£	£
Proprietary Foods and Beverages	1,575,491	1,724,554	883,066	835,871	715,731
Proprietary Medicines	4,164,550	3,811,237	4,018,543	4,279,926	4,464,242
Proprietary Toilet Products	2,505,792	2,710,229	3,253,385	4,286,457	5,299,374
	£8,245,833	£8,246,020	£8,154,994	£9,402,254	£10,479,347
By geographical areas					
Western Hemisphere	3,473,841	2,923,195	3,383,889	4,431,232	5,183,204
Australasian Area	854,597	978,423	886,706	819,414	832,524
Far Eastern Area	455,467	429,779	509,010	541,947	593,053
South African Area	1,318,234	1,512,787	794,398	823,757	915,589
Indian Area	445,641	523,165	563,338	577,772	678,525
Continent of Europe and Republic of Ireland	926,814	1,018,252	1,160,740	1,548,082	1,645,326
Other Markets	771,239	860,419	856,913	660,050	631,126
	£8,245,833	£8,246,020	£8,154,994	£9,402,254	£10,479,347

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

'Training for the Profession'

SIR, — Mr J. N. Stephens's letter in your issue of September 14th under the above heading gives rise to certain points to which attention should also be given.

Service in a professional office is not purely and solely to acquire a certain volume of technical knowledge. Leaving aside the inherent difficulty of reducing accountancy to the level of a class-room study, it would still not require five years solely to learn its technicalities. The primary object of such service is to acquire the objective approach to problems which distinguishes the professionally trained accountant, and, with all respect to Mr Stephens, experience in an industrial concern is not likely to achieve that object.

Even if this were not so, it is far from clear that a period of industrial training would provide any better opportunity for the student to acquire knowledge or experience in the matters to which Mr Stephens draws special attention. An accountant moving from one client's office to another is likely to obtain, at the least more varied, experience in dealing with business men of all types and their businesses, than if he were confined to one business, however large that business might be. He has the opportunity to observe the methods of numerous clients, whilst if he goes to one industrial concern, he is liable to form the impression that there is only one way to deal with any situation and that no other method is permissible.

Further, the need to look into and discuss intelligently the problems of a variety of clients, undoubtedly breeds in the accountant a facility in understanding the language of the business with which he comes into contact — a facility which will stand him in good stead if and when he comes to apply it to one industry in which he may wish to make a career.

There are, also, real possibilities of executive experience being obtained in the course of professional work. Whilst the management of businesses, as receiver or liquidator, has been a relatively small part of professional practice in the last ten or fifteen years, there is no reason to think that this situation will continue for ever, and such matters provide very valuable experience not far removed from that of not merely the accountant engaged in industry, but also of the business manager. In those offices in which practising accountants engage in office as directors, there is further opportunity to study methods of business and business control.

If, indeed, there is 'mistrust between the production executive and the accountant; the inability to talk a common language; an inferiority complex towards the work of other departments', it is more likely to result from the unfortunate practice of

attracting young accountants into industry as soon as they obtain a qualification and expecting from them the fruits of experience which could only come their way in two or three years' further service as qualified assistants.

If the profession were permitted to complete the training of entrants by retaining their services for at least two years after obtaining their qualification, industry would have the advantage of a more completely educated recruit and the profession some recompense for the training it has given.

This would do more than any 'training courses' — however well planned — to remove the shortcomings to which Mr Stephens refers.

Yours faithfully,

London, EC2.

H. O. H. COULSON.

Dispensing with Receipts

SIR, — Mr H. F. Joyce, who is the secretary of a London company, may find it convenient to suggest that receipts should be neither demanded nor given (September 21st issue), but I would like to put the point of the practitioner in a country district such as this.

In the preparation of accounts from incomplete records, including those of farmers in particular, an accountant has to rely almost entirely on receipts from suppliers in order to identify not only payments made, but also the nature of the purchases from these suppliers. Difficulties have already been experienced because of the attitude of certain banks in including only cheque numbers on their pass-book statements, but if receipts are not going to continue to be given the difficulty of the practitioner is going to be immensely increased. Even greater difficulties will arise if statements are not in fact returned by the suppliers. I can quite see that where a complete system of purchase day-books and ledgers is in operation these may not be necessary, but I sincerely hope that the suggestion made by Mr Joyce will certainly not become universal. The trouble is that if it is started it will spread, and our particular difficulties will then multiply.

Again, one can assume that when Mr Joyce draws cheques they are correctly made out to the correct payee, but here again in farming districts, in particular, the names on the cheques seldom tally exactly with the suppliers' formal and correct name in which his bank account is operated. Presumably in these cases an endorsement will be necessary on the cheque and Section 3 of the Cheques Act will not apply. In my view, therefore, utter confusion will arise because some accounts will need to be covered by a receipt and others apparently will not. I should have thought that from the professional point of view auditors would still have been extremely anxious to

have produced to them receipts for payments made and particularly where incomplete records are involved.

Yours faithfully,
R. S. FROST.
Taunton, Somerset.

SIR, — The necessity of dispensing with receipts and unnecessary postage is brought out by the following example:

Wholesale tobacconist's gross profit on a sale of goods amounting to £2 2s 0d is, approximately 9d

Cost of posting invoice (new rate) 2½d
„ receipt (if demanded) 2
„ posting receipt 2½d

Even the cost of posting the invoice is three times the cost of the rest of the overhead expenses.

Yours faithfully,
LANGFORD R. LEWIS.
Luton.

Tax Reserve Certificates: Interest

SIR, — I am prompted to comment on the treatment in accounts of interest on Tax Reserve Certificates. It should first be understood, of course, that such interest is allowed only where it is to be used in partial settlement of tax liabilities. It thus appears that this interest cannot of itself form part of the profits of a unit; all that it can do is to reduce the amount of taxation chargeable against profits. It would seem that the proper accounting treatment is to credit this interest to taxation provision whence it can be transferred to profit and loss account, as a provision no longer required. This does not accord with the treatment usually employed, which is to treat it as a part of the profits before charging taxation.

The suggested form of treatment accords with decisions of the Courts where attempts have been made to distribute such interest as a tax free dividend.

Yours faithfully,
L. G. COON, A.C.I.S.
Leigh-on-Sea, Essex.

Stock-in-trade 'Below Cost'

SIR, — I would recommend your correspondent 'Arcadia' (August 24th issue) to refer to the Institute's Recommendation X on 'The Valuation of Stock-in-trade'.

He asks what the expression 'stock-in-trade, below cost', means in a balance sheet. The Institute recommends that stock-in-trade should be valued at the lower of cost or market value, and if it is shown as 'below cost' (which incidentally I have not seen, and consider a bad expression) it presumably means that the value of the stock-in-trade is the market value.

The suggestion that the stock-in-trade has been undervalued in order to form a secret reserve is most unlikely since this practice would not be in accordance with the Companies Act, 1948, and the Institute's recommendation also states that reductions in stock values below cost or market value, whichever is the lower, should be shown as a reserve in the accounts.

Yours faithfully,
M. H. K.

Accountants' Sports Clubs

SIR, — I am wondering if many firms of accountants have sports clubs for the benefit of employees? Earlier this year, the Oxford Crichtons Sports Club was formed by amalgamating the existing sports clubs of two local firms of chartered accountants. For a very small monthly subscription, employees of these two firms can play cricket, tennis, badminton and table tennis. In the summer, facilities for sport are available every night, and, in the winter, badminton is played once a week and the club-room is open on three other nights every week for table tennis, other indoor games and social activities. Matches against other local clubs are played regularly, and the club, which has about 100 members, is extremely popular.

My committee feel that our club may be the exception rather than the rule in that the members have a common professional bond. I should be interested to hear of any other clubs similar to ours and, if possible, would like to arrange match fixtures with such clubs or with teams of accountants who may be interested.

Yours faithfully,
J. STEWART,
General Secretary,

Oxford. THE OXFORD CRICHTONS SPORTS CLUB.

[We shall be glad to forward any replies to this letter to Mr Stewart. — Editor.]

Territorial Army Recruitment

SIR, — You will be aware that the suspension of part-time training for National Service men, announced in January 1957, means that employers are now relieved of the burden of sending many thousands of young men to camp each year. It is felt, therefore, that this is the right time for an approach to employers in order to ask for their active help in encouraging volunteers, men and women, to serve in the Territorial Army. We realize there is a limit to the number of men and women that a firm can release for training at any one time, but the number is small when spread over the whole industrial and commercial field.

Many firms do, indeed, give their active support by allowing volunteers time off for their essential annual training, and by encouraging volunteers, and we are most grateful to them. We believe that many others would support our efforts if they were aware of the liabilities of their employees who join the Territorial Army.

Volunteers start by signing on for two, three or four years, and they can then re-enlist for further periods of one, two, three or four years. The volunteer agrees to attend an annual fifteen-day summer camp, and to carry out at least thirty one-hour training periods a year which take place in the evenings and at weekends, for which he is paid a tax-free bounty.

It is our hope that employers with staff in the Territorial Army will allow them to attend fifteen days annual camp in addition to their normal holiday, and without losing financially.

We believe that the employer can best help by ensuring that the knowledge of his support for the Territorial Army reaches the junior management, the departmental manager, the foreman and all those who control men and women.

An official booklet entitled *An Appeal to Employers* has been published and copies of this, and any other information, can be obtained from this Association

or any other county Territorial and Auxiliary Forces Association.

Yours sincerely,
R. G. HARMAN, *Secretary*.
CITY OF LONDON TERRITORIAL &
AUXILIARY FORCES ASSOCIATION.

*Finsbury Barracks,
City Road, London, EC1.*

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

In re Barbour's Policies

(Before Earl JOWITT, Lord MORTON OF HENRYTON, Lord REID, Lord RADCLIFFE and Lord KEITH OF AVONHOLM)

In the House of Lords – July 4th, 1957

Estate duty – Insurance policies – Policies settled – Date when interest in policies arose – Whether interest in possession during settlor's lifetime – Finance Act, 1894, Sections 2 (1) (d), 5 (3).

A settlor, who died in 1951 domiciled in Northern Ireland, made a settlement in 1929, and among the settled assets were two policies locally situate in England. At the date of the settlement the policies were already fully paid. The policies provided for the transfer to the policy-holder of two 4 per cent Victory Bonds of £5,000 each and, if either of the bonds were drawn during the currency of the policy, a certain sum in cash was to be paid to the assured or his assigns forthwith, and there was to be a reduction of the amount of Victory Bonds payable on maturity. The other policy was a single premium policy and assured the sum of £7,000.

By the settlement these two (and other) policies were transferred to the trustee together with a sum of £12,000. After making provision for certain outgoings the trustee was to accumulate the trust income until June 30th, 1942, and was then to pay the income of the trust fund and of the accumulations to the settlor's son for life. The corpus of the trust fund was to go to the son's own sons. On failure of these trusts the settlor's nephew and his issue were to take corresponding interests, and on failure of that trust there were similar trusts in favour of another nephew and his issue.

The settlor's son died in 1937 without issue, and after June 30th, 1942, the trust income was paid to the first nephew. On the death of the settlor in 1951 Victory Bonds and cash to the extent of £19,753 2s were received by the trustee pursuant to the two policies. One of the Victory Bonds had been drawn in the settlor's lifetime, and the proceeds had been received by the trustee and invested and the income paid to the nephew.

It was contended for the respondent that the interest of the nephew in the policies arose during the settlor's lifetime; that the case was governed by

the decision in *D'Avigdor-Goldsmid v. C.I.R.*; and that no estate duty was payable in respect of the policies on the occasion of the settlor's death. It was contended on behalf of the Inland Revenue that no interest in the policies arose to the nephew until the settlor's death.

Held (Lord Radcliffe dissenting) (reversing the judgment of the Court of Appeal), that the nephew had a beneficial interest in possession prior to the date of the settlor's death and consequently that estate duty was not payable in respect of the policies.

In re Wrightson's Policies

Estate duty – Insurance policies – Policies settled – Date when interest in policies arose – Whether interest in possession in settlor's lifetime – Finance Act, 1894, Section 2 (1) (d).

By a settlement deed made in 1932, four life assurance policies on the life of the settlor were assigned to the trustees, who were directed to receive the policy moneys and to divide them into six equal parts. Three parts were to be paid over to the trustees of another settlement, the Neasham Hall Settlement, and were to be held by those trustees as capital moneys under that settlement. Each of the other three parts was to be invested, and the income applied for the benefit of the settlor's three younger sons respectively. Subject to these provisions the policy moneys were to be dealt with as if they were capital moneys under the Neasham Hall Settlement.

The settlor died on January 7th, 1950, and his four sons survived him. The four policies were fully-paid policies insuring the settlor's life to the extent of £17,000 with profits. On the death of the settlor, the policy moneys were got in by the then sole trustee of the 1932 settlement, and the amount thus received was £22,380 16s 9d.

It was contended by the Inland Revenue that estate duty was payable, under Section 2 (1) (d) of the Finance Act, 1894, on the value of the life interests of the four sons in the policy moneys.

Held (Lord Radcliffe and Lord Reid dissenting) (reversing the judgment of the Court of Appeal), that the principle upon which the case of *In re Barbour's Policies* was decided applied also to the present case and that no liability to estate duty arose.

Electronics in the Office

Computers and Business Problems

Two courses held at Dundee Technical College during August dealt with the application of electronic data processing to business problems. The main objectives of the first course 'Electronic computers and business problems', were to indicate what a computer is, how it can be instructed to carry out computations and the areas in which it can operate.

During the course, members were introduced to the way in which statistics can be applied to computers and to the idea that linear programming may be used to provide solutions to problems of forecasting and production planning; problems which, at present, are being handled in an incomplete and expensive manner either because the data is lacking or because it is not available sufficiently quickly.

Some interesting observations were made on the value of information in relation to its age and cost. It is not always vital to receive information 'hot off the press', and managements, when considering the usefulness of a computer, should examine carefully the speed with which any given piece of information is required. This is particularly important, as much stress is being laid at the moment on speedy access to information stored in the computer, but unless speed is vital, it is merely a very costly luxury.

Computer Applications in Business

The second course, 'Business management and electronic data processing', had as its main purpose the examination of some actual applications of computers to business situations. This involved looking at, among other things, payrolls, inventory control, production planning and invoicing.

These applications can be regarded only as an attempt to solve problems of routine work by faster and more accurate methods. While savings can certainly be obtained if these operations are conducted on a large enough scale, the use of a computer as an extension of conventional equipment and methods does not take advantage of features peculiar to a computer. These features which, for example, allow sorting and merging of, and random searching for, data to take place, extend the use which can be made of the machines. One example of this extension may be drawn from the field of production where decisions to produce a given quantity of a certain style of article has immediate repercussions on the stock position.

Finally, the course investigated the way in which the structure of an organization is affected when a computer is installed. If maximum results are to be obtained a searching review of the organization's managerial and supervisory structure must be undertaken. Such a review is likely to result in the re-definition of functions, the merging, or perhaps the

expansion, of departments. The activities of the organization will thus tend to centre round the computer.

Booklets on Office Mechanization

Three exceptionally well-produced booklets published recently by The British Machine Tabulating Co Ltd¹ contain a considerable amount of useful information concerning office mechanization in large or small organizations. The booklets are intended to give the busy executive a clear and comprehensive picture of some of the resources now available to him, not only through the employment of the electronic computer, but also by the use of ancillary electronic machines, normal punched-card electro-mechanical accounting and calculating techniques.

The Hec type 555 electronic calculator is claimed to have such great technical resources that it will bear comparison with a computer. It does, in fact, provide limited computer facilities within conventional punched-card equipment. Compared with the company's other calculators, the '555' has a much greater calculating capacity; it incorporates a magnetic drum memory which can hold and store this information and read it out and use it as and when required.

Using punched cards as the medium for recording payroll data for 3,000 employees with an average of ten varying items of pay and deductions for each employee, the calculator would complete the payroll and P.A.Y.E. arithmetic in five hours. With a daily movement - receipts and issues - of 3,000 made-in items from a stores inventory, the calculator will carry out all the calculations required in respect of the previous day's stock movements in two and a half hours' operating time.

Aid to Management Control

The booklet *Hec General Purpose Electronic Computers* beside giving detailed specifications of the company's computers, discusses their application to major management control problems and quotes examples of uses to which they are being put. These uses include stock control; costs and their budgetary control; sales accounting; production planning; market research and payroll preparation.

The most ambitious and comprehensive publication of the three, *Key to Action*, describes punched-card mechanization - machines and methods - 'from basic punched cards to electronic computers'. It explains the basic principles of punched-card accounting techniques and, after describing the resources and uses of several machines, shows examples of punched-card machine production.

¹ *Key to Action; Hec General Purposes Electronic Computers; Hollerith Type 555 Electronic Calculator*. The British Tabulating Machine Co Ltd. Copies free on request from the Publicity Department, 36 Hertford Street, London, W1.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

SPECIAL GENERAL MEETING

A special general meeting of members of The Institute of Chartered Accountants of Scotland was held in Glasgow on Friday of last week, with Mr James T. Dowling, C.A., President of the Institute, in the chair.

EXTRACTS FROM PRESIDENT'S ADDRESS

After referring to the unfortunate losses sustained by the Institute through the deaths of Sir David Allan Hay, K.B.E., and Mr Herbert Haldane, the President congratulated Sir Ian Bolton, Mr James Walker, and Mr J. W. Campbell who were among those included in the Birthday Honours List. The President continued:

Seventh International Congress

I have just returned from the Seventh International Congress of Accountants held in Amsterdam, where our Institute was well represented. No less than 104 separate accountancy bodies, covering forty countries, participated. The two Dutch sponsoring bodies – the Netherlands Institute of Accountants and the Association of University-trained Accountants – are to be heartily congratulated on having carried out with conspicuous success the major task of organizing a full five-day programme for the 1,600 participants from abroad and the 1,200 from the Netherlands. The Scottish Institute took a not unimportant part in the proceedings. Mr C. I. R. Hutton, B.A., contributed a stimulating paper on 'The ascertainment of profit in business', and at the Delegates' Banquet there fell to me – as President for this year of the oldest existing accountancy body in the world – the honour of replying, in the presence of H.R.H. The Prince of the Netherlands, to the toast of 'The Accountancy Profession'. I also had the honour, as leader of the Scottish Institute's delegation, of being amongst those leaders of delegations who were most graciously received by H.M. Queen Juliana.

Integration

Members last came together in general meeting on March 27th and at a special general meeting then held, we considered a new set of rules for the Institute and the proposals for integrating The Society of Incorporated Accountants with the three Chartered bodies in the British Isles. The resolutions on these important subjects which were moved on behalf of the Council, were carried by large majorities at the meeting and on the subsequent polls. Subject only to two very small drafting amendments the new rules were approved by the Privy Council on August 22nd and 23rd, and came into effect on those dates.

The three integration schemes were approved by The Society of Incorporated Accountants in general meeting in June last and a poll vote disclosed a majority in favour of over 86½ per cent. It only remains, therefore, for the Society to go into voluntary liquidation for the three schemes to be brought into effect.

The President then referred to the new edition recently published of the *General Summary of Rules for Admission and Syllabus of Examinations*, and mentioned that a shorter and more attractive booklet presenting chartered accountancy as a career was being considered. He continued:

Retirement Benefits

I would now like to pass from apprenticeship to the other end of our careers. On August 1st there came into operation the plan for retirement benefits and life assurance which the Council had arranged with The Standard Life Assurance

Company. You have all received a copy of the booklet explaining the plan, and, as I hope that you have read it, I am not going over the details again today. As you know, the plan provides that members wishing to avail themselves of it shall deal direct with the Standard: by this means we have made the administration as simple and inexpensive as possible, and members can be assured that neither the members of the Council nor the Institute's secretariat even know which members have joined the plan, let alone how much they have contributed.

Having launched our Retirement Benefits and Life Assurance plan, we are now actively engaged in considering the possibility of introducing a Superannuation and Life Assurance Scheme for the staffs of our members in practice.

Special Subjects and Committees

We have been asked to give evidence to the Royal Commission on Doctors' and Dentists' Remuneration, and to help it in other ways, and this afternoon the Council will be considering the report of a special committee which has been considering the whole matter. As you may be aware, the Royal Commission's remit requires it to compare the remuneration of doctors and dentists with the remuneration of people in other professions.

Another subject on which we are about to give evidence – this time to the Law Reform Committee (Scotland) – concerns the implications of the decision of the House of Lords in *British Transport Commission v. Gourley* ([1956] A.C. 185). As you know, this was the case where it was decided that, in a personal injuries case, damages for loss of earnings should be calculated on a net basis after taking income tax and surtax into account. The question is whether the law should be changed and, if so, how.

Our Company Law Committee, now considerably extended in number, is actively reviewing the Companies Act, 1948, so that at the appropriate time we can be ready with our suggestions as to the changes which we would consider desirable in the legislation affecting companies. I would take this opportunity of repeating the request already made to members to submit to the committee a note on any points which they think are worthy of consideration in this connection. We have a committee considering the matter of accounts of charge and discharge and how far the form of that account is suitable for present-day needs. We also have another committee considering the basis on which commissions of trustees and judicial factors fall to be assessed by the Accountant of Court. A still further committee has already reported to the Council on the subject of the remuneration and method of appointment of approved auditors and we will shortly be making representations with regard to various questions arising.

In conclusion the President said:

I have said enough in this brief review of our activities to indicate that quite a lot is being done, but there should be no room in our Institute for complacency, because there is much further work yet to be done. I often feel that in the Institute, as in so many other spheres, there is a tendency for a few 'willing horses' to be overworked. In my view the burden should be more evenly and widely spread, and if in the spreading we can increase the total production of useful work, so much the better.

ADMISSION OF NEW MEMBERS

A resolution was passed admitting 112 applicants to membership of the Institute. The President then delivered an address of welcome to the 41 new members who were present at the meeting.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

EIGHTH RESIDENTIAL SUMMER SCHOOL

The eighth summer school of The Institute of Cost and Works Accountants is now in progress at St Catharine's College, Cambridge. It opened last Wednesday evening with an address by Mr James Borsay, F.C.W.A., President of the Institute, which was followed by a talk by Mr W. Manning Dacey on 'The role of the banks in the national economy.'

The Cost Accountant and Automation

In the first paper given on Thursday morning by Mr A. Kenyon, B.COM., F.C.W.A., A.A.C.C.A., A.C.I.S., A.M.B.I.M., of Guest, Keen & Nettlefolds Ltd, whose subject was 'The cost accountant and automation in the factory', the author discusses the meaning of automation, its nature, potentialities, and implications both from the point of view of economics and of cost accountancy. He also examines the work of the cost accountant and the training necessary to fit him for his responsibilities.

Mr Kenyon points out that although automation began a long time ago, post-war developments constitute a major break-through towards the goal of the automatic factory and that the changes necessary to achieve an advanced stage of automation will be profound. These changes will affect equipment, methods, personnel, organization and possibly the product. The fact of predetermination of operating conditions under automation will, Mr Kenyon considers, result in easier cost control, thus allowing the cost accountant to concentrate more on investigations. Continual review of costing technique will be necessary, coupled with research into cost behaviour in the individual business and far-reaching schemes of investment will direct attention to the balance sheet and to the need for careful financial planning. He feels that the cost accountants' greatest contribution will lie in helping management to choose the most advantageous course of action; this contribution would be furthered by the inclusion of a cost investigation unit in the costing staff.

Economics of Plant Replacement

On Thursday afternoon, Mr J. A. Scott, C.A., F.C.W.A., addressed the school on 'The economics of plant replacement', the object of which, he said, is to enable an organization to carry on exchanging goods in order to provide continuing satisfaction to all having relationship with the undertaking. Plant replacement need not necessarily appear in the form of replacing an old machine by a new one of identical or of a better type. Machines may be replaced by entirely different machines to make entirely different products. Replacement can also appear in the guise of what temporarily looks like plant expansion. The overriding factor in determining whether a new machine shall be installed or not must always be the probability of a strong future demand for the products produced by the machine.

Plant replacement can be divided into three broad categories - necessary, optional and social. In considering plant replacement, one is considering the future;

in making comparisons one must compare future with future, not present with future.

Mr Scott also referred to the methods of assessing the advantages of plant replacement.

The Cost of Variety

'The cost of variety' was the subject of a paper delivered by Mr C. E. Power, A.C.A., F.C.W.A., of The British United Shoe Machinery Co Ltd, on Friday afternoon. Mr Power considers that the problem of product variety in industry is of the greatest magnitude and current importance. Costs, particularly indirect costs, may be reduced by close control and by taking every opportunity to prune expenditure. In these times of high overhead costs, more direct and profitable results are likely to spring from the reduction of cost by means of higher productivity.

It is often found that variety in product breeds greater variety in providing facilities for and in the processes of manufacture, but much can be done by better organization to simplify the problems of the manufacture of a large variety of products. In order to reduce a range of products, the complexities in manufacture and in other functions should be diminished so that with existing resources a greater volume can be made at reduced costs.

If management intends to pursue policies of product simplification, then the increased vulnerability to more violent profit fluctuations must be taken into account in assessing profit rates, working capital and reserves required for a gradually changing structure of the undertaking. Something more than figures of overall profit must be obtained if the simplification policy is to be successful. Appreciation of the profitability of all products, or at least of product groups, is desirable.

The principal theme for the achievement of economic costs under conditions of variety production, Mr Power enunciates in the catch phrase, 'The three S's: simplification, standardization and specialization'. These are not essential to each other but are complementary.

Mr Power refers to the importance of computers which, in his view, could provide most of the information required, to assess the relative cases for simplification in products by their ability to deal with alternatives.

Summer School Dinner

The school will conclude with the dinner to be held in Hall this (Saturday) evening, when the President of the Institute will occupy the chair.

The toast of 'The University and City of Cambridge' will be proposed by Mr A. I. G. Farquharson, C.A., A.C.W.A.; the response on behalf of the University will be made by Mr Sydney Smith, M.A., PH.D., Steward of St Catharine's College, while Councillor C. E. Ridgdon, M.A., Deputy Mayor of Cambridge, will reply on behalf of the City.

Captain C. R. Benstead, M.C., M.A., R.N.(RETD.), is to propose the toast of 'The Institute of Cost and Works Accountants', and the President will respond.

Notes and Notices

CHEQUES ACT, 1957

COUNCIL OF THE INSTITUTE TO ISSUE STATEMENT

The Council of The Institute of Chartered Accountants in England and Wales is considering the Cheques Act, 1957, and it is hoped that after its meeting on Wednesday next, October 2nd, the Council will be in a position to issue a statement for the assistance of practising members in considering their audit requirements and in advising their clients, and also for the assistance of members in industry and commerce.

We hope to reproduce the statement in next week's issue.

PERSONAL

MESSRS KINGSFORD, GARLANT & Co, Chartered Accountants, announce that they have removed their offices to Norwich Union House, 35 Earl Street, Maidstone, Kent. Telephone: Maidstone 51809.

MESSRS TURQUAND, YOUNGS & Co, Chartered Accountants, of 19 Coleman Street, London, EC2, announce that they have admitted to partnership in London as from October 1st, 1957, Mr J. H. PHILLIPS, F.C.A., who has been with the firm for many years and has been, since 1946, senior partner in their Eastern firm.

Messrs ARTHUR ANDERSEN & Co and Messrs TURQUAND, YOUNGS & Co, of 19 Coleman Street, London, EC2, announce that their association in the firm of ARTHUR ANDERSEN, TURQUAND, YOUNGS & Co is being discontinued by mutual agreement.

Messrs TURQUAND, YOUNGS & Co will conduct their practice in Paris at 6 Square de l'Opéra, Paris, 9, from which office they will handle all their continental work, with the exception of that in Spain, Portugal, Malta and Gibraltar, where separate offices are maintained.

Messrs ARTHUR ANDERSEN & Co will carry on their practice in Europe in their own name. Their offices in London will remain temporarily at 19 Coleman Street, London, EC2. Their continental European practice will continue and will be directed from their new Paris offices at 46 Avenue Victor Hugo, Paris, 16.

MESSRS ERIC PHILLIPS & Co, Incorporated Accountants, of 31 King's Road, Sloane Square, London, SW3, announce that Mr S. A. SCHIFF, M.A., A.C.A., A.S.A.A., who has been with the firm for some years, has been admitted as a partner as from August 1st, 1957.

PROFESSIONAL NOTES

Mr Geoffrey N. Wright, M.B.E., T.D., A.C.A., has been appointed an additional director of Tarmac Ltd.

Mr R. H. H. Edgcumbe, A.C.A., has been appointed a director of the London & Provincial Rubber Co Ltd.

Mr Gilbert E. Billingham, M.C., T.D., A.C.A., has been appointed a director of Minster Trust Ltd.

Mr Derek J. Palmer, A.C.A., has been appointed a director of Philip Hill, Higginson & Co Ltd.

OBITUARY

THOMAS IRELAND, F.C.A.

We have learned with regret of the death on September 11th at his Birmingham home of Mr Thomas Ireland, F.C.A., who for many years was a partner in the firm of Harrison, West, Ledsam & Co, Chartered Accountants, of Birmingham.

Mr Ireland who was 90, was born in Manchester. He began his career as a schoolmaster but later his interests turned to accountancy. After he was admitted an Associate of the Institute in 1909 he joined the firm of Harrison, West, Ledsam & Co; he was elected to Fellowship in 1919. Mr Ireland retired in 1956 having been a partner in the above firm for many years.

He was, during his career, auditor to the University of Birmingham, to the King Edward Foundation and to the Midland Institute.

COUNCIL ON PRICES, PRODUCTIVITY AND INCOMES

The Council on Prices, Productivity and Incomes has announced that its office will be at Sanctuary Buildings, 16 Great Smith Street, London, SW1. All written communications to the Council from now on should be sent to the Secretary to the Council at this address.

TAX RESERVE CERTIFICATES

Her Majesty's Treasury announced on Wednesday, that as from September 25th and until further notice, Tax Reserve Certificates of the seventh series issued under the terms of the prospectus dated July 8th, 1955, will bear interest at 3½ per cent per annum free of tax.

The rate of interest on certificates of the seventh series subscribed before September 25th, 1957, will remain unchanged.

ASSISTANT OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade has announced that as from September 16th, 1957, Mr Walter Arthur Bishop has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Croydon, Guildford, Kingston upon Thames, Slough and Wandsworth; also for the Bankruptcy District of the County Courts of Aylesbury, Banbury, Brentford, Chelmsford, Edmonton, Hertford, Newbury, Oxford, Reading, St Albans and Southend.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

The opening meeting in the 1957-58 session of the Manchester Society of Chartered Accountants was held on September 18th, when Mr F. J. Erroll, M.P., Parliamentary Secretary to the Board of Trade, spoke on 'European free trade'. The meeting was held

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jointly with the Manchester and District Branch of The Institute of Cost and Works Accountants.

The second function took place on September 20th, when the President and Committee held a sherry party at which newly-qualified members were welcomed.

Other meetings during the session will be held as follows:

October 21st: 'Management accounting', by Mr F. T. Hunter, F.C.A.

November 21st: Annual Dinner at *The Midland Hotel*, Manchester.

November 26th: 'Brains trust' organized by the Lancashire and North Western District of The Corporation of Insurance Brokers' Consequential Loss Society.

December 16th: 'Planning for estate duty', by Mr Neil Elles, Barrister-at-Law.

January 20th, 1958: 'Recent developments under Schedule E and overseas trading corporations', by Mr H. A. R. J. Wilson, F.C.A.

February 10th: 'The application of electronic computers to accounting procedures', by Mr J. A. Goldsmith, M.A., F.C.A.

March 17th: 'The fight against inflation', by Mr W. Manning Dacey.

With the exception of the 'Brains trust', which will be held at *The Old Nag's Head Hotel*, Lloyd Street, Manchester, 2, and the annual dinner at *The Midland Hotel*, the meetings will take place in the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2.

THE NORTH LONDON DISCUSSION GROUP OF CHARTERED ACCOUNTANTS

A meeting of The North London Discussion Group of Chartered Accountants will be held at 6.15 p.m. for 6.45 p.m. next Tuesday, at *The Mason's Arms*, 38 Maddox Street, W1, when Mr J. Huntrods will lead a discussion on 'Modern developments in industrial banking'.

New members will be specially welcome. The annual subscription is 17s 6d, and the hon. secretary is Mr P. D. Dowell, A.C.A., Flat 3, The Gables, Holden Avenue, London, N12.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The autumn lecture courses of the London Students' Society begin next week with the following meetings at the Institute:

Monday, 5.30 p.m. at the Institute: Mechanized accounting course. Introductory lecture by Mr Dudley W. Hooper, M.A., A.C.A., chief organizing accountant, National Coal Board.

Thursday, 5.15 p.m. at the Institute: Introductory course lecture on 'The chartered accountant's profession', by Mr R. J. Carter, B.COM., F.C.A.

Friday, 5.15 p.m. at the Institute: Introductory course lectures on 'The fundamentals of business', by Mr R. J. Carter, B.COM., F.C.A., and on 'The English judicial system', by Mr P. W. Medd, Barrister-at-Law.

Programmes are being posted to members and during the session detailed announcements of the activities during the following week will appear in each issue of *The Accountant*.

Students are reminded that the Library and Study room at Spencer House, South Place, are open on Mondays to Fridays from 9.30 a.m. to 5.30 p.m. The study room is available in the evening by prior arrangement.

COMMERCIAL APPLICATIONS OF COMPUTERS

A course on the commercial applications of electronic computers is to be held at the Sir John Cass College, Jewry Street, Aldgate, London, EC3, during the first and second terms of the 1957-58 session.

The course, which will be in two parts, is intended for executives and any other interested persons and no prior technical knowledge will be assumed. Part I of the course, which will consist of nine lectures to be given on Wednesday evenings beginning on October 16th, 1957, is on 'The construction and operation of electric digital computing systems designed for commercial purposes', by Mr R. G. Mills, M.A. (CANTAB.), M.SC. (LOND.). Part I is designed not to detail descriptions of individual computers, but rather to give an appreciation of the operation and programming of computers in general. Part II of the course will also be held on Wednesday evenings, beginning on January 15th, 1958, and will consist of about eight to ten lectures on a 'Review of the commercial applications of electric digital computing systems', by Mr A. J. Burton, A.S.A.A., A.C.I.S.

The fee for each course for those residing in the administrative county of London is £1. Application forms and further information may be obtained from the Secretary, Sir John Cass College, Jewry Street, Aldgate, London, EC3.

ANNOTATED TAX CASES

Part I of Volume XXXVI of the *Annotated Tax Cases*, edited by Mr Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *S. Berendsen Ltd v. C.I.R.* (Ch.D.); *Beauchamp's Executors v. C.I.R.* (Ch.D.); *Barney v. Pybus* (Ch.D.); *Firestone Tyre and Rubber Co Ltd v. Lewellin* (H.L.); *In re Flower's Settlement Trusts* (C.A.); *Smethurst v. Davy* (Ch.D.); *Miesagaes v. C.I.R.* (Ch.D.); *C.I.R. v. Buchanan* (C.A.); *Hood Barrs v. C.I.R.* (H.L.); *In re Hodge's Policy* (Ch.D.); *Mitchell Brothers v. Tomlinson* (C.A.); *Vise v. Gatehouse* (C.A.); *Sangster v. Hart* (C.A.); *Evans v. Richardson, Nagley v. Spilsbury* (Ch.D.); *C.I.R. v. Thornton, Kelley & Co Ltd* (Ch.D.); *Regina v. Special Commissioners of Income Tax, Ex parte Linsleys (Established 1894) Ltd* (C.A.); *Bearsley v. Bridges, Hewitt v. Bridges* (C.A.).

The index of names and subjects of cases to Volume XXXV is also being published and when received this volume may be sent for binding.

The annual subscription to the *Annotated Tax Cases* is 30s post free: the publishers are Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

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CHEQUES ACT PROCEDURE

THE Cheques Act is due to come into operation on October 17th, and since it received the Royal Assent in August, the banks have been working out the details of its operation. Some weeks ago they embarked on the considerable task of raising with every customer who uses the combined cheque and receipt, the question whether he now insists upon continuing the practice; if he does, his cheques must, from October 17th, bear upon their face a letter R, close to the amount in figures, otherwise the receipt will not be scrutinized by the banks.

Last week the Committee of London Clearing Bankers held a Press conference at which was released the *modus operandi* upon which they have now agreed; their statement is reproduced elsewhere in this issue.

The details are along the lines generally foreseen. The Cheques Act is drawn so as to exempt from liability the banker who collects or pays any cheque without endorsement or with an irregular endorsement. However, the banks propose to continue to call for endorsement on cheques which are paid in by anyone other than the payees, and on cheques cashed over the counter; this meets the Mocatta Committee's opinion that these endorsements can sometimes be necessary for the protection of the public, and fulfils the assurances given in the Parliamentary debates on the Bill that they would still be called for despite the very wide terms in which the Bill was drawn.

The other instruments on which endorsement will still be required are detailed in the Clearing Bankers' statement; they will not, perhaps, concern the majority of customers, although it would be well for a commercial concern handling hundreds of ordinary inland cheques in the normal course of business to keep in mind that, for instance, its isolated draft on the Crown Agents, or a single cheque on the Isle of Man, has still to be endorsed.

More important, on several counts, than these surviving endorsements, is the particular question of the combined cheque and receipt, as well as the general question of receipts of which it is a part. It will be remembered that for some time it was upon the endorsement-receipt that the whole reform seemed likely to founder. In the event, the Mocatta Committee expressed the opinion that a paid cheque is as good *prima facie* evidence of payment as any simple receipt can be; and at the same time the banks expressed their willingness to continue to operate the system, provided that cheques bearing receipts were identified on their face.

The Act includes a clause specifically making an unendorsed paid cheque *prima facie* evidence of payment, and the banks have

naturally based on this clause, and on the Mocatta Committee's evidence, a strong plea for a widespread abandonment of what will now become a troublesome exception to the general practice. There must, of course, still be businesses whose particular circumstances call for special treatment here; but the banks were able to report last week that the response so far has been better than they had hoped – and it is, of course, clear that new requests for the facility will be granted very reluctantly indeed.

This part of the reform is, of course, of particular interest to accountants. The Council of The Institute of Chartered Accountants in England and Wales have issued a statement regarding the operation of the Act which is also reproduced in this issue. In it they agree that the receipt on the back can normally be dispensed with, provided that cheques are drawn 'Not negotiable, account payee only'. A cheque so drawn has always been the only perfectly safe instrument from the drawer's point of view, and if the implementation of the Cheques Act makes this crossing more general, the efficiency of the cheque system will have been further improved.

But accountants will have other problems to tackle as the Act becomes law. Correspondents have pointed out how useful the endorsement can be in identifying payments by clients remiss in their book-keeping; the unendorsed paid cheque, drawn by someone not at all certain of the exact name of the payee and not as careful as the Council suggest he now should be in getting it right, may be quite a good deal less useful than the old endorsed cheque to the auditor trying to reconstruct accounts with insufficient data. Obviously there will be no encouragement, from those accountants who regularly find themselves in this position, for the further simplification of book-keeping involved in the abandonment of receipts altogether when payment is made by cheque.

Many big commercial concerns have for years not called for any sort of receipt beyond the paid cheque; they anticipated the Mocatta opinion cited above – and some are now beginning the complementary practice of issuing receipts only when specifically asked. Their accountancy processes are obviously easier to adapt to this kind of simplification than those of smaller businesses; it is perhaps ironic that it is the smallest businesses of all, with little that can justly be called

an accounting system at all, that will give their accountants most trouble if, as seems likely, the receipt follows the endorsement to general extinction.

The Chartered Institute of Secretaries also has agreed that the receipt on the back of the cheque can well be dispensed with, in all but exceptional cases – and they have gone on to approve, after taking the advice of their solicitors, the disappearance of discharges on dividend warrants: another consequence of the Act which is of considerable importance to companies. The Act thus comes into operation with the blessing of both accountants and secretaries.

Both the Bankers' statement and the Institute's advice are naturally to be regarded as provisional: nobody knows for certain how it will all work out in action, and modifications in the practice now outlined may prove necessary. The banks

'are anxious that customers should from the outset derive every possible benefit from the new legislation',

and accountants will certainly do all they can to make the new system work efficiently.

The Institute's statement is designed to this end. Its overriding moral is, of course, that drawers of cheques must take more care: more care in the correct naming of the payee; more care with records if the payment is no longer to associate itself automatically with the bill which is being paid; more care even in the different handling of a payment to a person known to have no banking account. The banks, too, have an increased responsibility to the extent that the collecting banker is now solely responsible for most of the endorsements that still have to be made; the paying banker will look only at R endorsements.

In practice, all this will doubtless be painless enough, and the benefits will be substantial. The banks, it is true, have pointed out that their savings will not be as vast as has been suggested; and it is unlikely that more than a few businesses will find a single clerk redundant as a result of the Cheques Act. But endorsements take time, and hundreds of millions of endorsements a year, none of them serving any essential purpose, are a good thing to be rid of.

We understand, as we go to press, that the Scottish Institute is on the point of issuing a statement on this subject which we hope to reproduce in next week's issue.

ACCOUNTING FOR INFLATION

by J. F. ALLAN, F.C.A.

SINCE the publication in 1952 by the Council of The Institute of Chartered Accountants in England and Wales of their Recommendation XV¹, little progress appears to have been made in evolving a technique which can be of real help in showing 'the effects which changes in the purchasing power of money have had upon the affairs' of a business (paragraph 315 (a) of the recommendation). The Council's preference for the retention of a 'historical cost' form of presentation of published accounts has no doubt been a brake on such evolution.

I suggest it is high time that our profession made a more concerted attack on the problem. There are two main reasons why, in my opinion, something must be done – and done soon. Firstly, in a time of increasing competition from abroad, it is essential that information is made available to show which industrial or commercial units are really profitable; secondly, in the light of the constant demands from all quarters for higher wages, a reliable guide to the proper balance of the claims of labour and of capital is equally essential.

Co-ordination of Differing Profit Concepts

On the first point, I believe that some effort must be made to co-ordinate the economic and accountancy concepts of profit. I imagine that few, if any, economists will consider a business is profitable when it commences a trading period with net assets of £1,000 and finishes that period with net assets of £1,020 if, during the period, there has been a 3 per cent fall in the value of money. Cannot our profession meet this view, at least to the extent of attempting to measure the 'economic' or 'real' profit, even if it does not endorse the view that the 'monetary profit' is a meaningless or misleading figure?

The second point appears to me to be of the greatest importance. The published figures of net profit, calculated both before and after deduction of appropriate taxation, are the figures to which general attention is paid and those which affect the formulation of wage claims. References in directors' reports to the effects of inflation, and the setting aside of reserves without indication of the basis of calculation of the amount required to be withdrawn from 'monetary' profit are, I believe, dismissed as being evidence of extreme financial prudence or conservatism; they are likely

to feed the flames of the indignation which burns at the heart of trade unionism and in the heads of many of its leaders and supporters.

I bear in mind that

'the primary purpose of the annual accounts of a business is to present information to the proprietors, showing how their funds have been utilized and the profits derived from such use' (paragraph 286 of Recommendation XV).

The capital invested by proprietors is purchasing power which has been withheld from disbursement in other directions, and it is the increase in value of that purchasing power (not the money itself) which is the real concern of those proprietors (whether such increase is achieved by capital increment or by remuneration for use). I suggest that many proprietors are completely misled as to the profitability of their investments when they read the published accounts of the businesses in which they are interested financially.

Paragraph 289 of Recommendation XV states that

'it would be a major development in the building up of a coherent and logical structure of accounting principles if the limitations of accounts based on historical cost could be eliminated or reduced by the adoption of new principles, capable of practical application to all kinds of businesses in a manner which would be independent of personal opinion to a degree comparable with the existing principles based on historical cost'.

The following is intended to be a sincere attempt to achieve that development.

Paragraph 287 of the recommendation points out that an important feature of the 'historical cost' basis of preparing accounts is that it reduces to a minimum the extent to which the accounts can be affected by the personal opinions of those responsible for them. If, therefore, we are to find a solution to the problem of accounting for inflation, which might be acceptable to the Council and to the profession as a whole, we must look for one which produces the same answer each time it is applied to the same facts, whoever the operator may be.

Again, it is clear that the method chosen must be applicable to numerous sets of circumstances of wide variation. Let us consider three types of business activity: the manufacturer owning substantial fixed assets; the retailer in rented premises whose sole assets are goodwill, stock and cash; and the agency or professional practice

¹ See *The Accountant*, May 31st, 1952, page 577 et seq.

with only goodwill, debtors and cash. It is clear that no method of adjusting the charge for depreciation, or of charging stock consumed or sold on a replacement cost basis, is equally applicable to all. It is equally clear that inflation has its effect on each business; if the manufacturer's fixed assets wear out after ten years' use and after that period of time the original capital of each business is equal to 150 per cent of the amount introduced, then each proprietor has a profit of 50 per cent on his outlay (annual remuneration of capital is assumed to be the same in each business, and may be ignored). If, during the same period of ten years, the value of money has fallen by 50 per cent, each proprietor has suffered a loss of 25 per cent of the purchasing power which he invested.

Suggested 'Common Factor'

We must, therefore, seek a 'common factor' of all businesses to which a method of adjustment can be applied. The item which is common to the balance sheets of all is the capital of the proprietors. We are accordingly led to the conclusion that some means must be sought whereby adjustments are made in relation to that capital in order to give effect in the accounts to the inflation which has taken place.

Turning to paragraph 290 of Recommendation XV, we find that one of the four main suggestions¹ for new accounting principles to overcome the limitations of the 'historical cost' basis, is the index method of adjusting accounts to reflect changes in the purchasing power of money. Such applications of this method as have come to my notice have dealt with adjustments of various kinds in relation to assets and/or profits. Let us eradicate the confusion between 'capital' and the assets it represents, and look beyond the distinction to be drawn between 'historical' cost and 'replacement' cost. The arguments developed in the preceding paragraphs lead me to believe that we may be making more solid progress towards our objective if we apply an index to the capital represented by the business assets.

We must first decide what index we shall use. Because capital invested represents purchasing power not utilized in other directions, I favour the use of the official Index of Retail Prices (or cost-of-living index) until some more reliable guide to variations in the value of money becomes available. It is definite, it is published frequently and related indices over a long period of time are ascertainable.

¹ *The Accountant*, May 31st, 1952, page 578.

Application of Index

Having decided on an index, we must find the best method of application. My suggestions are:

(1) Ascertain the variation in the index for each year, since the equity capital was originally invested (calculated as a percentage of the index for that year).

(2) Calculate that percentage of the equity capital (i.e. the capital which would participate in surplus assets on liquidation or dissolution).

(3) Transfer each year an equivalent sum from reserves, to a special reserve with a suitable title (e.g. 'capital depreciation reserve').

(4) Should there be any balance of reserves (including balance of profits undistributed) after making this transfer, such balance represents real (as opposed to monetary) profits retained and invested (although perhaps temporarily) in the business. From the accounting records it is possible to ascertain the respective years in which this surplus arose, and the amount arising in each year. Treatment is required similar to that applied to capital, but a separate special (revenue) reserve should be created ('revenue depreciation reserve').

(5) The reserve created under (3) then represents the amount required to maintain the purchasing power of the original capital, and that created under (4) the amount required to maintain the purchasing power of sums retained from time to time in the business.

Once these reserves are established at the last accounting date, it is a simple matter to calculate the transfers to be made each year by applying the percentage variation in the index for each accounting period to the separate totals of capital plus 'capital depreciation reserve' and free reserves plus 'revenue depreciation reserve'.

The choice of titles is tentative. I would prefer to classify the transfers as 'provisions' and to show them in the profit and loss account 'above the line', but perhaps at this stage such suggestions are too revolutionary to be acceptable.

The following is a simple illustration of the application of my suggestions:

January 1951:	Original investment, £1,000				
July 1953:	Further investment £500				
	1951	1952	1953	1954	1955
	£	£	£	£	£
Net (taxed) profits	200	250	400	120	300
Net dividend (10 per cent on capital) ..	100	100	125	150	150
Retained profit ..	<u>£100</u>	<u>£150</u>	<u>£275</u>	<u>£30</u>	<u>£150</u>

Assumed cost-of-living index:

100 at Jan. 1st, 1951					
at Dec. 31st ..	110	121	133	146	160

(i.e. a rise in the index each year equivalent to 10 per cent of the figure at the commencement of each year.)

		<i>Transfer to capital reserve</i>			<i>Transfer to revenue reserve</i>
1951: £1,000 × 10 per cent	..	100	Retained profit	..	100
			Less Capital reserve transfer		100
					Nil 10% = Nil
1952: (£1,000 + £100) = £1,100 × 10 per cent	..	110	Retained profit	..	150
			Less Capital reserve transfer		110
					£40 10% = 4
1953: (£1,100 + £110) = £1,210 × 10 per cent	..	121	Retained profit brought forward, £40 - £4	..	36
£500 × 10 per cent for half-year	..	25	Ditto for year	..	275
		£146			311
			Less Capital reserve transfer		146
					£165 10% = 16
1954: (£1,210 + £500 + £146) = £1,856 × 10 per cent	186		Retained profit brought forward, £165 - £16	..	149
			Ditto for year	..	-30
					£119
			Less Capital reserve transfer		186
			Deficit	..	£67 10% = -7
1955: (£1,856 + £186) = £2,042 × 10 per cent	204		Retained profit brought forward (-£67) - (-£7)	..	-60
			Ditto for year	..	150
					£90
			Less Capital reserve transfer		204
			Deficit	..	£114 10% = -11

The balance sheets at December 31st, 1955, are illustrated on the next page.

For the sake of simplicity, in the illustration I have dealt only with a rise in the cost-of-living index. A fall in the index is accommodated in the same way, although, of course, the transfer is made from the reserves to the credit of profit and loss account.

Proposals Examined on Previous Criteria

At this stage it seems to be appropriate to examine the proposals in the light of the criticisms of previous techniques which are contained in Recommendation XV. We have already considered the primary purpose of annual accounts and the desirability of excluding the effect of personal opinion. I submit that so far we have not fallen below the standard set by accounts pre-

pared on a 'historical cost' basis. Further pitfalls outlined in the recommendation, and my views on their application to the foregoing proposals are:

Falling prices (paragraph 295). Whether the accounting periods cover rising or falling prices, full provision is made for amortization of the cost of fixed assets. I see no objection to the 'capital depreciation reserve' being in debit if it so happens that, following the initial raising of capital, there is a period of deflation and a falling index, although it may be that, in the present state of the law, directors may be obliged to refrain from payment of dividends except to the extent that the credit balance on profit and loss account exceeded the debit on 'reserve' account.

Index method (paragraphs 305 to 311). The criticisms in these paragraphs appear to me to visualize the application of the index to the book

'Historical cost' basis

Capital	£	1,500	Assets	£	2,145
Profit and loss account		645			
		<u>£2,145</u>			<u>£2,145</u>

Adjusted basis

Capital	£	1,500	Assets	£	2,145
Capital depreciation reserve		746			
		<u>2,246</u>			
Deduct Profit and loss account deficit	£	103			
Less Revenue depreciation reserve		2			
		<u>101</u>			
		<u>£2,145</u>			<u>£2,145</u>

N.B. - Any fixed assets will have been depreciated on a 'historical cost' basis in the normal manner.

values of the assets. I suggest that if the index is applied to the equity capital (plus accumulated profits) the validity of the criticisms largely disappears.

The 'implications which extend far beyond accounting matters', referred to in paragraph 310, are, I presume, the 'economic and social issues' dealt with in paragraph 311¹. As to (a) in the paragraph I maintain that no difficulties would arise so far as 'rights expressed in monetary terms' are concerned, as these would remain in *status quo* until the Legislature (and public opinion) has progressed far enough to give the long-term lender some protection against the erosion of his capital by inflation. On (b) I express my view that if industry and commerce are to survive, they must operate under such conditions as will ensure the maintenance of their capital in terms of real value; whether prices must be raised (thus adding to the inflationary burden) or costs lowered by more efficient operation is a matter for directors or proprietors. Whether we 'aggravate the problem' or not is a matter of opinion - or, perhaps, of choice. The problem is there, whether we like it or not.

The adjustments in taxation principles referred to in (c) may well have to be tackled in the future, but my proposals are capable of application under the present code, and would serve to emphasize the need for recasting the basis of direct taxation. Reference is made in (d) to the possible effect on the raising of capital if the

purchasing power of capital is to be maintained before dividends are paid. Until a solution such as the foregoing were adopted generally, it would, perhaps, be leaping too far to suggest that distributions of profit should be made only out of the surplus available after making the appropriations to the 'reserves'. If, however, a company were to pay a dividend without having such a surplus, at least its proprietors would be warned that their sacrifices in investing instead of spending had been in vain. A fall in the real value of an investment is a fact which should be recognized by all who are concerned. Shutting our eyes to the loss does not eradicate it.

Correspondingly, I see no difficulties 'in the event of the purchasing power of money being increased by falling prices' as visualized under (e). Until our education in these complicated matters has been materially improved, distributions of profit can be restricted to the amount of 'monetary' profit, so that the excess of 'real' profit is retained in the business concerned.

Finally, the position of those who have invested 'on the basis of annual accounts or prospectus statements prepared in accordance with existing accounting principles',

referred to in (f) need not be affected, at least until the general conception of 'profit' has been radically adjusted. Here, again, the red light of danger could be accepted as a warning and not as a complete bar to the less enlightened actions of the past.

Paragraph 312 ('Conclusions and Recom-

¹ *The Accountant*, May 31st, 1952, page 581.

recommendations¹) acknowledges three main defects of our present 'historical cost' basis accounts, namely, that the results shown (i) are not a measure of increase or decrease in wealth; (ii) do not necessarily represent the amount which can prudently be regarded as available for distribution; and (iii) are not necessarily suitable for purposes such as price fixing, wage negotiations and taxation. In all these respects, I suggest that accounts prepared on the basis I have suggested would be more realistic and useful.

Conclusion

In conclusion, I suggest that the recommendations contained in paragraph 314 are met by the technique I have attempted to outline –

(a) Historical cost would continue to be the

¹ See *The Accountant*, May 31st, 1952, page 581.

- basis on which accounts should be prepared and – until we have become more enlightened – profits computed;
- (b) Amounts set aside in recognition of the effects of changes in the purchasing power of money could be treated as transfers to reserve;
- (c) The amounts so set aside would be treated as capital reserves;
- (d) No writing-up of assets is involved.

The further recommendation in paragraph 315, that members should draw attention to the desirability of (a) setting aside sums in recognition of the effects of changes in purchasing power; (b) showing the effects on the affairs of a business; and (c) experimenting with methods of measuring such effects has been the spur which has prompted me to set down these thoughts – if, indeed, a spur was needed.

AUSTRALASIAN COMMENTARY – XXVI

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several textbooks on accounting and company law.

Mechanization

BELIEVING that in ten or fifteen years the hand-written cash-book and the hand-posted ledger will be almost as archaic in the progressive public accountants' office as the quill pen, New Zealand practitioner Mr R. A. Whitmore, A.P.A.N.Z., tells in the May issue of *The Chartered Accountant in Australia* how, in his own office, several hundred clients' general ledgers (as well as his own firm's partnership ledger) are all put through the accounting machine. Description of the system which eliminates the cash-book is interesting.

Posting to the ledger cards is done directly from cheque counterfoils, pre-numbered bank statements or both, or direct from the statements of firms if there happens to be a running balance. The bank reconciliation is prepared in the usual way, unrepresented cheques being given the code number of the account to which they are to be posted, and the reconciliation is hand-written on a sheet inserted for that purpose and retained in the front of the client's ledger.

The total of all items debited to the various accounts through cheque books and bank state-

ments is credited to the bank and all credits are debited to the bank. This total is accumulated in the machine during the posting operation, and the balance of the bank account in the ledger must be agreed by the operator with the reconciliation figure which has been obtained by the member of the staff responsible for that portion of the work. Credits to revenue are taken from the bank statement and analysed thereon – the credit being to sundry debtors, sales, commissions, etc. Other credits are obtained through the journal or from vouchers. Each client's ledger cards are attached in a loose-leaf folder which has been designed for that purpose.

Secret Reserves

'I can see no valid reason why directors should not be permitted to create secret reserves provided they inform shareholders fully on any occasion when, and the extent to which, such reserves are brought to the credit of the annual profit and loss statement.'

This was the view put forward by Mr Norman S. Young, F.C.A.(AUST.), at the recent Chartered Accountants' Australian Congress held in Mel-

bourne. Among the reasons which Mr Young advanced to support this view was that the real protection to the shareholders rested upon the skill and probity of the directors and managers of companies, rather than on the form and content of the annual accounts which, by law, they are entitled to receive.

Scale of Fees

In a paper dealing with the chartered accountant in practice presented at the Congress already mentioned, Mr J. H. Jamieson, F.C.A.(AUST.), stated that, in his opinion, the issue of an Institute scale of fees was not desirable. Mr Jamieson considered that a scale could be used as a means of subsidizing inefficiency and that efficient work well presented should be the measure for payment.

Internal Control

In the June issue of *The Chartered Accountant in Australia*, Mr F. E. Trigg, F.C.A.(AUST.), comments on a view put forward at the Melbourne Congress that accountants should publicize what internal control means and what they are thinking and doing about it so that the investing public and clients will realize that the protecting and safeguarding of a company's assets is the directors' responsibility. Said Mr Trigg:

'I do suggest most strongly that if we start publicizing what we are thinking and doing about internal control we run a very great risk of undermining public confidence in our work. As I see it we are now reaching a stage when our thinking about the subject of internal control might get out of hand. It is well to remind ourselves why we have been thinking about it, and why among ourselves we think it is necessary to make an appraisal of it. It is simply this: the scope and character of the audit cannot be planned intelligently and, consequently, the auditor's opinion expressed in his statutory report cannot be soundly based, unless he has found out what the system of internal control is, and having done so is satisfied that by its efficient operation reliable figures will eventually find their way into the books from which the accounts are prepared.'

Accountancy Education in South-east Asia

Just home from a visit to South-east Asia are Mr O. H. Paton, President of the Australian Society of Accountants, and Mr C. W. Andersen, General Registrar of the Society. Officially sponsored by the Commonwealth Government, the trip was arranged under the Colombo Plan so that Mr Paton and Mr Andersen could consolidate the Society's valuable work of assisting

accountancy education in South and South-east Asia. The Minister for External Affairs, Mr R. G. Casey, recently said that the Australian Government had welcomed and encouraged the Society's work and had made available for tuition purposes the machinery of the Commonwealth Correspondence Scholarship Scheme.

Decimal Currency

Agitation for conversion of Commonwealth coinage to a decimal system is increasing considerably. There is one suggestion from Mr F. S. Scorer, F.A.S.A., who says in *The Australian Accountant* for July:

'I am in favour of retaining the £ as the basic unit of value and advocate the striking of a coin worth one-tenth of a florin. . . . I would call that coin a "Bit". I would drop the present sixpences and halfpennies like the plague - the latter being complete nuisances. I agree that the Government should declare that ten pennies equal one shilling.

'Here is my decimal scale:

Pound (Note)	..	..	..	1
Florin	..	..	..	.1
Bit ..	..	..	..	.01
Austral (Note)	..	..	..	.5
Shilling	..	..	..	.05
Penny	..	..	..	.005

Or:

£1 equals	..	..	..	2 Australs
"	..	..	..	10 Florins
"	..	..	..	20 Shillings
"	..	..	..	100 Bits
"	..	..	..	200 Pennies

You could not get closer to present values.'

In Melbourne, the Decimal Currency Council has been set up. Sir Leslie Melville, Vice-Chancellor of the Australian National University, Canberra, is President of the Council, and he has announced that it would seek the support of some two hundred key organizations throughout the Commonwealth. These would represent all aspects of the community, commercial and educational opinion and once evidence of their support had been established it was to be expected that the Federal Government would take appropriate action.

Statistical Compendium

A recent publication from the office of the Commonwealth Statistician which may be of interest to some English readers is the 1957 edition of the *Pocket Compendium of Australian Statistics*. Compact (4½ in. by 3½ in.), and weighing only 2¼ oz., it covers a wide range of commercial, industrial, social, financial and economic subjects. Its price, in Australia, is 1s.

THE INTERNAL AUDITOR

by ERNEST SINNOTT, F.I.M.T.A., F.S.A.A.

A paper presented on Wednesday, September 11th, in Amsterdam, at a business session of the Seventh International Congress of Accountants.

The Growth of Internal Audit

THE development of internal audit as an accepted commonplace in medium-sized and large-scale business enterprises and in local government and public authorities is a thing of the present century. The more widespread adoption of internal audit has corresponded with the tendency for growth in size and complexity of these organizations and with advances in techniques of management.

(2) Although the constitutions and the purposes and objects of these organizations vary widely, and they pursue independently their search for efficiency, they are alike in according to internal audit a status sufficient to make a practical contribution to efficiency and economies.

(3) The proprietor of a small business, exercising personal control and supervision, can himself perform the simple internal audit work necessary. As the business expands and he must delegate some or all of his responsibilities to employees, he will resort to internal check in the arrangement of their activities. He will also ensure the installation of an accounting system which will provide him with the information he needs to exercise top control and direct the policy of the business.

(4) Relative smallness in the numbers of staff employed limits the extent to which internal check can be a substitute for internal audit. In the earlier stages of the expansion of the business the proprietor will not wish to add to his overhead expenses by the employment of an internal auditor and he will turn to the external (public) auditor to advise him on the best methods of accounting and internal check to give him the information and security he seeks.

(5) Interchange of staff duties, close cash and stock control and an external audit going beyond the books of final accounts and into details of transactions may postpone the time when it becomes necessary or desirable to employ internal auditors.

(6) The growth of joint-stock finance and in the scale of business operations, giving rise to the emergence of management distinct and separate from ownership, have fostered the development of internal audit.

(7) As a general proposition it may be said that the employment of internal auditors becomes necessary or desirable when the size of the business, or the local or public authority is such that:

(a) Managers immediately responsible to the proprietors or policy-making body are themselves not in constant touch with operations.

(b) Authority to make significant decisions must be delegated to employees holding positions of trust remote from the controlling body.

(c) Systems and procedures have become sufficiently complex to involve the risk of unauthorized variations or delays.

(d) Transactions are too voluminous or technical in nature for an external auditor to have sufficient regard to matters of detail.



Mr Ernest Sinnott

Functions of the Internal Auditor

(8) In practice, the functions of the internal auditor will be governed by the attitude of the top management towards the purposes and objects of internal audit. His powers and duties vary as between different organizations but frequently he is

regarded as a protective device for management and as forming a link between the controlling body and the operatives in the field. His activities will also be governed by the extent of the internal check practised in the organization. Modern thought, it seems, extends his functions beyond those traditionally associated with his origins.

(9) It is not considered that the investing public in the case of private enterprises, or the ratepayers or consumers in the case of local authorities and public boards, are concerned whether or not there is an internal audit in these organizations, except to the extent that they expect them to be administered efficiently and properly, and profitably in the case of trading concerns. The public would look rather to the published results and external auditors' certificates and reports or to the level of local taxation and the standard of public services.

(10) It follows, therefore, that the duties of the internal auditor lie towards the management and controlling body of the organization he serves, and

these might be laid down at the time of his appointment.

(11) Management is entitled to look to the internal auditor for the performance of the following functions:

- (a) Prevention and detection of theft, fraud or any other losses of a like nature. The emphasis should be on prevention through the continual appraisal of the system of internal check. This aspect of the internal auditor's work is historically pre-eminent and should be a foremost consideration in the planning of audit work, because there will generally be a deliberate attempt to conceal this type of loss.

- (b) Prevention and detection of error, again with continual appraisal of the internal check.

Error and waste are less likely to be the subjects of deliberate concealment, though sometimes they might be in order to cover up an inefficiency. Management should rely on the internal audit to bring these matters to light, not only to prevent any repetition but also because management policy might be wrongly framed if based on data which is erroneous.

- (c) Detection and reporting of non-compliance with financial regulations and accounting instructions.

The words 'financial regulations' may be interpreted broadly, including powers of incurring expenditure, the disposal of assets, tendering and purchasing procedures, placing of contracts, etc., and all standing instructions with a financial significance.

In covering this wide field the internal auditor must use judgment and discretion. Rigid inflexibility may gain for the internal auditor a reputation for the stifling of initiative. Thus, where he finds that, though the spirit and intention of standing instructions have been observed, there has been some variation in detailed operation because of local circumstances, his report should indicate the reasons for, as well as the fact of the variation.

Accounting instructions, on the other hand, should be rigidly observed because departure from them can, where necessary, be agreed in advance with the chief accountant. The internal auditor should also give some attention to verifying that accounting records are kept up to date.

- (d) Suggestions for improvements in systems and methods, the presentation of financial and statistical data, the securing of further possible economies and ways of increasing income.

The internal auditor has, or should have, full authority to cross departmental lines. With this authority and his experience in conducting audits, allied to professional skill and training, he must constantly use a critical sense to assess the possibilities of improvements of the kind set out above.

This does not mean that the internal audit staff should also be the organization and methods staff, though this dual function is performed in some organizations. It is true that the review and improvement of systems and methods is one of the primary objects of organization and methods and that care must be taken to avoid duplication of work between the two staffs in this field. But in the course of their work, the internal audit staff have unique opportunities of appraising systems and methods, and it may well be that there should be some co-operation between the internal audit and the organization and methods staff. Useful information may be supplied by the internal auditor which may become the basis for an organization and methods investigation, but it is considered that the primary functions of internal audit may be impaired unless the two staffs are kept separate.

Fundamentally, the internal audit staff should have a right of access, whilst organization and methods staff should investigate only by invitation.

- (12) It may be useful at this juncture to mention a number of functions which it is considered ought not to be the concern of the internal auditor. They include:

- (a) The design of systems.

In order to be free to pursue his activities of continual appraisal of the efficiency and effectiveness of systems in use, it is preferable that the internal auditor should stand aside from their design and prescription. But he should always be ready to advise on them.

- (b) He should not be part of the internal check system. An internal auditor should not have executive functions and he should be independent of and helpfully critical towards the internal check system.

- (c) Special investigations.

There is a temptation to employ internal audit staff on special investigations which arise from time to time. Though quite proper to use them on investigations relating to suspected fraud or falsification of accounting records, it is thought that they should only be sparingly used in other kinds of investigation. These may include, for example, a proposed new system or procedure, an inquiry into the reasons for falling profits in a particular department, compilation of data for recruiting policy, etc. Too many assignments of this nature, however, detract from the comprehensive and continuous review which is the first responsibility of internal audit.

Qualifications and Attributes of the Internal Auditor

- (13) The main emphasis (though not the only one) of the internal auditor's activities is in connection

with the accounting and financial operations of the organization he serves.

(14) The most appropriate qualification for him is an accountancy one and it is most desirable that he should be a member of a recognized professional accountancy body. In the course of his duties he will be required to audit the records of staff, some of whom are likely to be qualified accountants, to conduct discussions with them and possibly to criticize their performances in his reports. Unless, therefore, he has a professional qualification at least equal to those possessed by staff whose work he examines, his views may not be accorded the respect and attention which they should receive.

(15) A good internal auditor will go beyond the learning and experience which he has gained in the course of acquiring his professional accountancy qualification. He should seek to acquire as much information as possible about the technical production or service processes, economic and legal considerations and administrative techniques pertaining to the organization he serves. Only with this knowledge added to his professional accountancy skill can he adequately and ideally perform his duties.

(16) In addition, there are other attributes of character necessary to a successful internal auditor. He should have an inquiring mind, a well developed critical faculty and the qualities of patience, tact, integrity and determination. He should have a pleasant personality and although he should be a good mixer and gain the confidence of the staff of the organization, his friendliness and helpfulness must not extend to familiarity.

Status in the Organization

(17) The question of his status in the organization and of to whom he is responsible may be one for some differences of opinion. A degree of independence is vital to the proper effectiveness of internal audit, but in the view of the writer this does not signify that he should be directly responsible to top management.

(18) The number of higher executives responsible to top management should be limited if top management is not to be overburdened. The head of the finance branch, whether he be titled treasurer, comptroller, chief accountant or chief financial officer should be responsible for the whole of the financial operations and it is to him that the internal auditor should be responsible.

(19) If the internal audit is developed independently of the finance branch or department, there is a danger of parallel internal audit sections, by whatever name they may be called, being set up within the same organization.

(20) To obtain the best results, a wise chief financial officer will accord to the internal auditor a status within his department as senior as is reasonably possible, and will allow him wide freedom of action in the matters to be audited and the methods of doing so.

(21) The arguments of those favouring the complete independence of the internal auditor from the chief financial officer are usually centred upon the difficulties arising if the latter were himself involved in financial irregularities or if he ignored or suppressed legitimate accounting criticisms. Undue emphasis must not be attached to these points. One must pay regard also to the likely standing in the organization of the chief financial officer, and the system of internal check which can be installed to limit the possibilities of irregularities. A chief financial officer, too, is more likely to react favourably to constructive criticism of the accounting system and procedures if it comes from inside, rather than outside, his own department. Moreover, the support of the chief financial officer lends more power to the internal auditor in carrying out his duties.

(22) It should be laid down, however, that the internal auditor has the right of access and direct report to top management in extreme circumstances.

Restrictions on the Scope of Activities

(23) There is a difference between the responsibilities of an internal auditor and those of an external auditor. Those of the latter are placed upon him by statute, his certificate on the organization's final accounts is relied upon (as relevant to the particular organization) by shareholders, the general public, taxpayers and the national taxing authorities. An external auditor must have these responsibilities constantly in mind and cannot accept any restriction whatever upon professional standards.

(24) An internal auditor, on the other hand, is employed by the organization to perform the functions discussed earlier. He owes his responsibility to those who employ him and it cannot be regarded as unethical for him to accept and carry out the legitimate instructions of his employers. Towards such functions as he performs he must bring to bear the highest professional standards, but the scope of those functions will quite properly be prescribed by top management. If he considers that the scope is so restricted as to render his employment virtually abortive it would be his duty to point it out at the time of his appointment and, if he thinks fit, to decline the position.

(25) This, however, would be so rare and extreme a case as to be most unlikely in practice. The internal auditor should have his scope of activities clearly defined and his reports should indicate any shortcomings due to restrictions imposed on his activities. The external auditor, in his collaboration with the internal auditor, should become acquainted with any limitations in the scope of the latter's duties and arrange his audit programme accordingly.

Audit of the Activities of Top Management

(26) This matter is closely related to that discussed in the paragraphs immediately preceding. Since his appointment will derive from top management, the

question of the audit of their activities will be decided by them. A position of some delicacy may well arise, for the ultimate authority to which the internal auditor can report is top management itself. It is considered that the internal auditor might best discharge this onerous task by offering advice on a sound system of internal check upon top management activities. Should top management welcome internal audit of their own activities the internal auditor's position will be eased. If, on the other hand, the scope of his activities is restricted to exclude top management, he can quite properly leave this field to the external auditor, having made his own restricted position clear to that auditor and having proffered advice on the appropriate internal check. In local and public authorities, considerations of public accountability would tend to make it more desirable that access to the activities of top management be accorded to the internal auditor.

Relationships between the External and Internal Auditors

(27) The fact that the internal auditor is an employee of the organization should in no way prejudice his relationships with the external auditor.

(28) The Institute of Chartered Accountants in England and Wales has considered this matter and has recorded its views in a publication of 1953 entitled *Notes of the Relation of the Internal Audit to the Statutory Audit*.

(29) In this publication the Institute records that the statutory auditor may (*inter alia*):

- (a) 'derive much assistance from the internal auditor's intimate knowledge of the accounting system and technical knowledge of the business';
- (b) 'where satisfied that the internal auditor has adequately covered part of the work . . . be able to reduce the extent of his examination in detail';
- (c) 'be able to rely to a large extent on the internal auditors in determining whether the system of internal check is operating satisfactorily and in assessing the general reliability of the accounting records'.

(30) Coming from such an authoritative body these pronouncements are significant and exemplify the beneficial results flowing from co-operation between the external and internal auditors. Each of the two classes of auditors, however, has different functions outside this band of common interest. Both have been referred to already; the external auditor's responsibility to the public, his emphasis upon the accuracy and reliability of the final accounts and his attention to that part of the work which may not be adequately covered by internal audit (e.g. top management activities). The internal auditor will have paid close attention to detailed records and documents, the operation of the internal check, more efficient or cheaper methods of performing accounting and clerical duties, and the other duties for management referred to in paragraph (11).

(31) It is usual for Government auditors of local

authorities (the District Audit) to make extensive use of the knowledge and activities of the internal auditors.

(32) The internal audit programmes and reports should be made available for the scrutiny of the external auditor and the two forms of audit may be regarded as complementary.

The Organization of the Internal Audit

(33) Where the area of operations of an organization is reasonably compact little difficulty presents itself in considering the best form of organization for the internal audit staff. It is located at the headquarters seat of the organization's operations.

(34) Where, however, the operations are over a wider area such as that, for example, of a public electricity board, considerations of geography enter into the problem. In the writer's view, internal audit must be regarded as a headquarters service but beyond this it is not possible to generalize, and three main variations are possible:

- (a) Base the entire staff at headquarters and travel to the outlying branches or districts to carry out audit work.

The advantages are: the facility of changing auditors' duties, prevention of undue familiarity with locally based staffs, a better team spirit among audit staffs and a greater moral effect of the audit.

The disadvantages are: the increased expenses involved, the loss of travelling time and fewer opportunities for gaining local knowledge.

- (b) The attachment of internal audit staffs to sub-organizations of the main organizations, when they are no longer regarded as part of the headquarters service but a tool in the hands of local management. Some form of reporting and remote supervisory link with main headquarters would need to be established.

Under this method, the advantages and disadvantages of method (a) are, roughly, reversed.

- (c) The establishment of audit teams or groups at convenient centres throughout the area of the organization's activities, under close supervision of, and receiving frequent visits from, the chief internal auditor. The staffs are regarded as headquarters services sited 'in the field' for ease of operations.

This arrangement, which is an attempt to gain the best of both methods (a) and (b) is, on the whole, thought to be the best.

• Internal Audit Reports

(35) The reporting system of the internal auditor is of great importance in securing the effectiveness of internal audit. Leading considerations are – to whom should he report, at what intervals and what sort of matter should he include in his reports? The answers to these questions will depend largely

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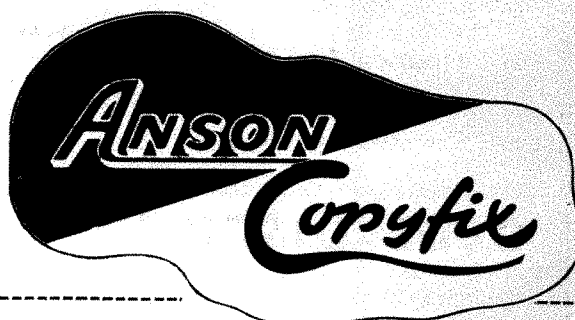
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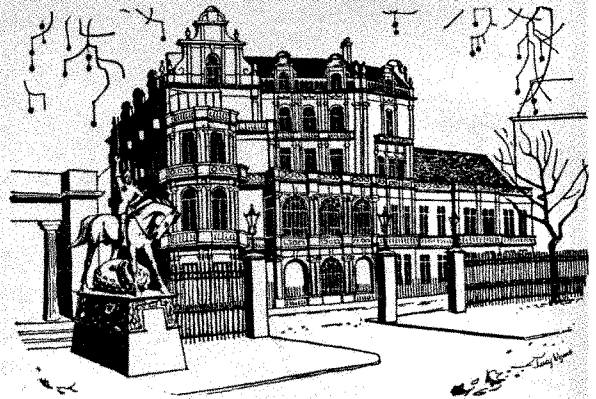
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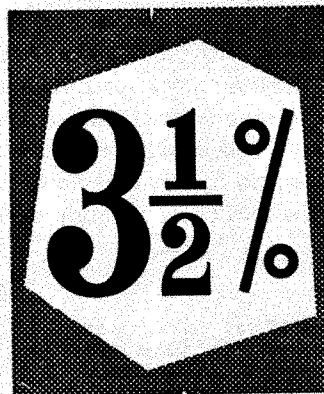
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upon the type of organization he serves and his status in it. In the context of this paper, internal audit is regarded as a management service and the internal auditor as a senior officer in the department of the chief financial officer. The reporting system would be designed accordingly, and the internal auditor would report through the chief financial officer to the manager (or departmental head) of the district, branch, or department which is the subject of the report. Top management would be apprised by the chief financial officer of anything in the report of sufficient importance to bring to their notice.

(36) The general rule should be for reports to be made as soon as audits are completed, rather than at fixed intervals of time. The latter system has the disadvantage of requiring management to piece together two or more reports in order to get a complete picture of the department or branch in which they are interested. Regular reporting at fixed intervals of time may carry with it the corollary of audit visits at regular intervals, so destroying the value of the surprise element.

(37) The content-matter of audit reports, whilst being reasonably full, should not be overburdened with detail or references to minor clerical errors corrected during the course of audit. They should, as a rule, be strictly factual and where comments or recommendations are made, reasons must be given. Management is not usually concerned with the audit programme or procedure followed, but with the end results of the work.

(38) Special considerations may apply to reports of surprise audits which have been specifically commissioned.

The Effect of Developments in Electronic Accounting

(39) The object of internal audit will not be altered by change-over to electronic accounting. There have been continuous changes in accounting processes

throughout the twentieth century, and the transition from the commonly used punched card and other types of accounting machines to the newer forms of electronic machines is no more fundamental than has been experienced in the past.

(40) Increased centralization of accounting, which may follow the newer devices, may tend to increase the reliance upon the internal auditor by removing executive accountants further away from operational districts and branches.

(41) Appraisal of computer programmes may become one of the internal auditor's functions, and it will continue to be at the early stage of original records and base documents, upon which the worth of future accounting processes rests, that the value of the internal auditor's activities will continue to be felt.

Tests of Efficiency of the Internal Auditor

(42) Just as the necessity for a fire-brigade ought not to be judged by the number of incendiary outbreaks being few, or of a police force by the number of crimes committed being few, so the internal auditor ought not to be judged by the number of frauds or mistakes uncovered. Indeed, with an important part of the internal auditor's role being that of the prevention of such occurrences, it may be a good thing if none at all come to light, for his activities may be responsible for there being none.

(43) A list of economies or increased income resulting from audit suggestions is one interesting test. More important, however, is the degree to which internal audit has been accepted by management, and to which its recommendations have been acted upon, for this denotes confidence in audit activities.

(44) A scrutiny of audit reports may also be revealing in assessing the efficiency of the internal auditor. The extent of his activities, his command of the subject and approach to his work will be recognizable from the reports.

Weekly Notes

The Institute of Chartered Accountants in England and Wales

The President, Mr W. H. Lawson, C.B.E., B.A., F.C.A., the Vice-President, Mr W. L. Barrows, F.C.A., and members of the Council of The Institute of Chartered Accountants in England and Wales, gave a luncheon on Wednesday at the Hall of the Institute.

Among the guests were the Lord Mayor of London, Col. Sir Cullum Welch, O.B.E., M.C., Mr Sheriff Anthony Clifton-Brown, Sir Irving Gane (City Chamberlain), Mr R. J. Hayward, R.D., F.C.A. (Chief Commoner), Mr E. H. Nicholls (Town Clerk), Mr W. E. Sykes, M.C., J.P., F.C.A. (Chairman, Coal and Corn and Finance Committee) and Mr Leslie B. Prince, M.A., F.C.A. (Chairman, Rates Finance Committee), Mr R. S. Walker (City Surveyor), Mr William T.

Boston (Senior Esquire to the Lord Mayor), Comdr. J. R. Poland (Swordbearer), Col. J. Hulme Taylor (Common Cryer and Serjeant-at-Arms) and Brig. Richard Gooch (City Marshal).

Restrictive Practices Reports

The Incorporated Council of Law Reporting for England and Wales have agreed with the Treasury Solicitor to publish a separate series of reports of cases under the Restrictive Trade Practices Act, 1956. The practice hitherto has been for the Council to publish a general series of reports and for Government departments to publish their own special reports (such as *Tax Cases*) on matters of vital interest to them, but in view of the special position of the Restrictive Practices Court it is considered that the

independent body of trained reporters which the Council has established should be responsible for recording the Court's decisions. The President of the Board of Trade has emphasized in Parliament 'the certainty which it is necessary for industry to have so that these great decisions are not at the whim of some political phase or change each week or month'. They were trying 'to establish a solid body of case law upon the basis of principles laid down by Parliament'. The object of the new arrangement is to facilitate that end.

The new series of law reports will include not only decisions of the Restrictive Practices Court but also decisions of the High Court under the Act, and any appeals from such decisions.

Six Months' Fiscal Returns

Buoyancy of revenue is the outstanding feature of the returns for the first half of the fiscal year, although it has been offset by large increases among estimates in ordinary and capital outlay. Ordinary revenue increased from £1,933 million to £2,096 million in the first half of the year thanks to the buoyancy of income tax and profits tax. In other words, the improvement is a reflection of buoyant incomes and inflationary pressure. The overall deficit has been slightly reduced over the half-year from £515 million to £501 million - ordinary expenditure having gone up by £71 million and net capital outlay by £78 million.

The second half of the year will have to take account of the rise in Bank rate and the proposed capital investment cuts. It is therefore particularly difficult to read into the results of the first half-year any indication of what will happen over the full year. The increase in Bank rate will raise current expenditure owing to the higher outlay of servicing the National Debt, but this may be offset to an unforeseeable extent by a decline in capital investment of public authorities and undertakings. On the whole, the more successful the Government may be in fighting inflation between now and next March, the less favourable is the Budget outcome likely to be. Under current conditions, buoyancy of revenue spells inflation. Only the most severe capital expenditure cuts 'below-the-line' will reduce total outlay sufficiently to offset any drop in revenue which is likely to arise from, say, the Customs and Excise returns. So far as income tax and profits tax are concerned, the pattern for the fiscal year is, of course, set by this time, and any success with anti-inflationary measures would be felt on these items mainly in 1958-59.

Industry's Views on the Free Trade Area

The Association of British Chambers of Commerce, the Federation of British Industries, and the National Union of Manufacturers have jointly issued a report called *The European Free Trade Area*. It is concerned with the items which the authors think should be dealt with or omitted from a Free Trade

Area convention if such a convention is going to be negotiated.

The three bodies think that tariffs and import restrictions, definitions of origin, the terms of Government intervention, export subsidies and incentives, the absence of transport discrimination, Government export restrictions and dumping, should all be included within the convention as well as measures to help hard-hit industries and companies. They would exclude from the convention such matters as taxation, harmonization of wages and social charges, restrictive practices and transport policy.

The two matters on which the views expressed in the pamphlet may be somewhat out of step with the trend of negotiations are, first, the emphatic declaration that there must not be a Free Trade Area at any price. That is to say, the Free Trade Area is not in their view a logical development from the European Common Market. Second, the preference for the omission of harmonization of wages and social charges runs counter to the known wishes of the French. France placed this issue high on its list of requirements for the Treaty of Rome which established the European Common Market and it is likely that she will try to insist on a similar clause in any Free Trade Area convention.

Ownership of Steel

Over the last twenty years, a number of investigations have been made which show how widespread are the shareholdings of large public companies and how small is the average holding. The latest of these has been made by the steel industry and the results are published by the British Iron and Steel Federation in a short pamphlet called *Steel Today - Who Owns the Steel Industry?*

The investigation shows that nine out of ten shareholders own less than 500 shares each and the ten largest shareholders own together an average of only 11½ per cent of the total. These largest holders belong mainly to four groups - insurance companies, bank nominees, the Church Commissioners and pension funds.

The largest number of ordinary shareholders is in Colvilles Ltd where there are over 41,000. Next comes Dorman Long Ltd at about 30,000 and United Steel Companies Ltd at 29,000. In no company is the number of shareholdings less than 4,000. Half of the companies analysed have more shareholders than employees. Colvilles are outstanding for the large number of very small holdings. There is thus no evidence of a large concentration of voting power. The insurance companies, who tend to be thought of as holding large blocks of shares, own on the average only 6.6 per cent of the issued capital. Information is not available as to how this percentage is broken up among individual companies, but it is clear that the holding of even the largest insurance concern is a very small proportion of the total capital.

Reviews

Companies: Law and Practice

Third Edition

by S. W. MAGNUS, B.A., Barrister-at-Law, and
MAURICE ESTRIN, A.S.A.A.

(Butterworth & Co (Publishers) Ltd, London. 63s
net; 64s 9d post free.)

Among the many improvements to the latest edition of this useful work are a new appendix setting out the relevant sections of Acts other than the Companies Act which have a bearing on companies and their administration, and a further amplification of the notes on certain sections, notably those dealing with formation, management, accounts, receivers and winding-up. By these and other additions, the scope of the work has been so much enlarged that the authors have changed the title from *The Companies Act, 1948 to Companies: Law and Practice*. The inference of the new title is fully justified for, as well as being an excellent commentary on company law, the manual contains twelve appendices crammed with practical information and an index of one hundred pages which enables the reader to penetrate the eight hundred preceding pages of text at precisely the right point with the minimum of searching.

Where to Look for Your Law

Twelfth Edition

by C. W. RINGROSE

(Sweet & Maxwell Ltd, London. 7s 6d; interleaved,
15s net.)

This useful manual is in two main parts. The first is an exhaustive alphabetical list of subjects with the names of the appropriate authorities and writers of textbooks. The second is a list, also alphabetical, of the authors referred to with the title, year and price of the latest editions of their works. There are, too, sections giving the names of current reports and periodicals and the abbreviations used in legal literature. It seems a safe observation to make that no lawyer should be without such a publication and many accountants will also find it of value, not only for the references to accounting, auditing, company law and taxation, but for the range and variety of its coverage of all other matters with which the law is concerned.

The Law of Trusts

Seventh Edition

by GEORGE W. KEETON, M.A., LL.D., Barrister-at-Law
(Sir Isaac Pitman & Sons Ltd, London. 50s net.)

When we reviewed the sixth edition of this excellent work on trust law, we observed that it dealt with the law as it existed on December 31st, 1952, and therefore did not include the important case of *Re Downshire*. As if in answer to this the seventh edition

contains a whole section on the power of the Court to authorize a departure from the terms of the trust. The section is a little difficult to track down as it appears in a larger section headed 'Powers of investment', although it is by no means confined to powers of investment. It is comforting to have such an up-to-date volume on a branch of the law which surprisingly changes very rapidly.

Appraising the Economics of Electronic Computers

by FRANK WALLACE

(Controllership Foundation Inc, New York. \$4 net.)

This is one of a series of reports on business electronics issued by the research arm of the Controllers Institute of America; the author is a partner in Messrs Peat, Marwick, Mitchell & Co (New York firm). The book gives a summary of how a company can determine whether to acquire a computer and attempts to get to the core of a common-sense, business appraisal of computers. Those who have already seen larger American volumes on the subject will find here a more concise summary of the American approach to computer studies, but they will probably finish it armed with more questions than answers.

The three possible benefits which might follow the introduction of a computer into an industrial company are reviewed; they are stated as: a reduction in clerical costs; development of new control information, and introduction of new management techniques. The book then deals with the organization of the computer study team, the selection of jobs for study, the analysis of present procedures and projected systems, cost estimates and installation and training programmes. Four appendices give brief details of the principal American machines, how a computer works, typical applications, and a short sketch on operations research.

In places, this report - because of its condensed nature - is somewhat superficial, but it contains many pieces of intelligence distilled from the sweat of hard labour that may not be immediately apparent to managers who have frequently to take decisions on too little evidence. Two of these are the warning against spending too much time seeing what others are doing, and the emphasis on need for internal work on the survey without becoming too dependent on the assistance of consultants.

Reading this book in the light of his own experience, the reviewer found that it confirmed somewhat indirectly what several companies in the United Kingdom will already have realized: that one cannot buy a ready-made system for the more important jobs and that *real* knowledge begins when company staff get about programming these or models of some of the projected systems. There is no quick or easy answer to the question - do we need a computer?

The World Dollar Problem

by DONALD MACDOUGALL

(Macmillan & Co Ltd, London. 50s net.)

International Monetary Policy

by W. M. SCAMMELL

(Macmillan & Co Ltd, London. 40s net.)

Sir Donald MacDougall is a leading authority on the United Kingdom's foreign trade problems. This lengthy and detailed book represents his considered views on the world's dollar problem. He recognizes that the risks of a serious American slump, which would devastate the world economy, have been very greatly reduced in the post-war period. He is by no means optimistic as far as the rest of the world's ability to earn dollars is concerned, even in conditions of economic stability. He discusses the trend of raw materials consumption in the American economy which formed the basis of the more optimistic Paley Report to President Truman; the pattern of her overseas trade, her tariff and foreign investment policies. He concludes that the dollar problem is likely to be with us for many years to come. The main hopes for insulating the world against these difficulties lies in the development of the international monetary institutions.

The latter institutions form the main subject-matter of the second book. Mr Scammell – also an academic economist, at present in Government service – traces the development since Bretton Woods of the International Monetary Fund and the World Bank. He discusses in detail the role of the sterling area and the significance of the European Payments Union in the post-war world. Inevitably he overlaps with Sir Donald's study in his discussion of the world dollar problem. He agrees that the problem will not be solved easily and pins his main hopes on international co-operation through the international bodies and United States foreign lending.

Both works are serious studies which will find their main audience among those specializing in economics, but the accountant with some economic training will, if he wishes, be able to comprehend them and learn in some detail the character of these problems.

SHORTER NOTICES

THE INDEX OF TECHNICAL ARTICLES. (Published monthly by I.O.T.A. Services Ltd, 38 Farringdon Street, London, EC4. Subscription £6 6s per annum.) The rapid advances in technical knowledge and the corresponding increase in technical literature makes welcome this publication that each month sets out to classify and list articles from over six hundred British technical journals. To readers of this journal, probably the most useful section is that on commerce which lists articles on accountancy, banking and finance, foreign trade, commercial law and economic development; a section on 'Management and Organization' lists articles on planning and costing, book-keeping, accountancy again and industrial law.

BRITISH EXPORTS AND EXCHANGE RESTRICTIONS ABROAD. (Swiss Bank Corporation, 99 Gresham Street, London, EC2.) The eleventh edition of this handbook embodies the changes in the foreign exchange regulations and commercial procedures which have been made in all the trading countries of the world during the past two years. For each country and overseas territory, a brief summary of the current import regulations, rates of exchange and the mode of payment under currency agreements where they apply, is given – as well as a note of the shipping documents required and a list of the countries with which the territory has concluded payments agreements. In addition, appendices setting out the main currency areas of the world and the permissible transfers in sterling under United Kingdom exchange control, are included. For any one engaged in the export trade, this little book will be a continuous source of information.

HANSON'S DEATH DUTIES, supplement to tenth edition, by Henry E. Smith, LL.B.(LOND.). (Sweet & Maxwell Ltd, London, 8s 6d.) This supplement comprises six pages of notes, an annotated reproduction of the estate duty provisions of the Finance Act, 1956, the Indian double taxation relief order, and a useful commentary thereon.

RECENT PUBLICATIONS

THE SALE OF GOODS, by P. S. Atiyah, B.A., B.C.L.(OXON.), Barrister-at-Law. xxv+206 pp. 8½×5½. 25s net. Sir Isaac Pitman & Sons Ltd, London.

ELECTRONIC COMPUTERS IN BUSINESS, a special subject list issued by The Library Association, Chaucer House, Malet Place, London, WC1. 1s 3d.

COST ACCOUNTING, 2nd edition, by Charles F. Schlatter, M.S., C.P.A.(ILL.), and William J. Schlatter, PH.D., C.P.A.(ILL.) ix+725 pp. 9×6. 58s net. John Wiley & Sons, Inc, New York; Chapman & Hall Ltd, London.

THE FINANCE OFFICER IN LOCAL AND PUBLIC AUTHORITIES, recruitment, training and functions. Report of a week-end conference organized by The Institute of Municipal Treasurers and Accountants at Balliol College, Oxford. 106 pp. 8½×5½. 10s (post free). The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, Westminster, London, SW1.

WHILLANS'S TAX TABLES AND TAX RECKONER 1957-58, by George Whillans. 9½×6. 1-5 copies, 5s; 6-24 copies, 4s 6d; 25 copies and over, 4s post free. Butterworth & Co (Publishers) Ltd, London.

COMMON SENSE ECONOMICS, by L. Albert Hahn. xvi+244 pp. 8½×5½. 18s 6d net. Abelard-Schuman Ltd, London.

GUIDE TO EXAMINATION SUCCESS, by Frank H. Jones, F.A.C.C.A., A.C.I.S., 4th edition. 64 pp. 8½×5½. 5s net (5s 6d post free). Barkeley Book Co Ltd, Stanmore, Middlesex.

LIBERALIZATION OF EUROPE'S DOLLAR TRADE, second report, June 1957. 180 pp. 9½×6. 9s. The Organization for European Economic Co-operation, Paris.

PRODUCTIVITY PRICES AND WAGES, by Jean Fourastié. Project No. 235. 113 pp. 9½×6. 10s. The European Productivity Agency of The Organization for European Economic Co-operation, Paris.

FORESTRY TENURES AND TAXES IN CANADA, the economic effects of taxation and of the regulating of the Crown forests by the provinces, by A. Milton Moore. v+315 pp. 9×6. Single copy, \$3; ten copies, \$22.50. Canadian Tax Foundation, 154 University Avenue, Toronto, 1, Canada.

THE CASE OF TORCHES, by Clark Smith. 224 pp. 7½×5. 10s 6d net. Hammond & Co Ltd, London.

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Finance and Commerce

Political factors have been having an adverse reflection on stock-markets. Fears that the Government may have to tighten the 'squeeze' still more, lead to marking back throughout the industrial sections. Labour Party intentions, expressed at the Brighton Conference, concerning property and nationalization, added to the market's gloom. Scarcely a department of the 'House' escaped, although short-dated British funds held up fairly well, being valued as a temporary investment refuge. The extent of the Bank rate reflection on quotations for the irredeemable and longer dated issues, however, is clearly seen in our usual quarterly table of gilt-edged prices, which appears on the next page.

'Half-time' Figures

The interim Consolidated Financial Statement of The Bowater Paper Corporation Ltd, for six months to June 30th, 1957, which we reprint this week is one of the signs of the revolution which has been quietly taking place in company reporting in the last year or so. The list of companies which issue half-year figures is lengthening, but most of the companies which have taken to interim reporting are in the multi-million size. That in itself is something of note, although the ability to produce a statement of account at more frequent intervals than twelve months should be independent of the size of the figures involved. Modern business, to remain competitive and succeed, demands what could almost be described as radar-accounting; and if the figures are available for administration, there is no reason why they should not be published for shareholders. Current public opinion says this should be every six months.

In due time, it may become three months, as in America from where we have recently received the quarterly issued by Marshall Field & Co, the great Chicago department store. The form this takes can be seen in the reprint.

Section 54

There is a little exercise in elucidation in a qualification to the report of the auditors of Hartley Baird Ltd, on the accounts for sixteen months to April 30th, 1957. 'We are advised', they state, 'that the acquisition by the company in 1956 of a loan due from a subsidiary to third parties was a transaction rendered unlawful by Section 54 of the Companies Act, 1948. The amount thus provided at the expense of the company has been repaid in full since the balance sheet date.' The statement forms paragraph three of the report, and the report is made subject to it.

Section 54 is one of those sections of the Act, seemingly involved, but quite clear once the main thread is grasped. 'Subject as provided in this section', it runs, 'it shall not be lawful for a company to give, whether directly or indirectly, and whether by means of a loan, guarantee, the provision of security

or otherwise, any financial assistance for the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any shares in the company, or, where the company is a subsidiary company, in its holding company . . .'

In other words, a company may not (with certain stated exceptions) assist anyone financially to buy or subscribe for its own or its holding company's shares.

Mr B. Homfray-Davies, the chairman, deals with the matter in a few words: 'With reference to section three of the auditor's report, the matter occurred before I joined the board and has since been resolved.'

'Doctor's' Report

Mr Homfray-Davies actually became chairman of the group on March 27th, 1957, following the acquisition of a controlling interest in the holding company by Camp Bird Ltd. He presents his review after only a few months in office, much in the nature, he says, of a 'company doctor' or, perhaps even more aptly, 'company surgeon'.

He refers to the group's losses over sixteen months. The net group loss was £75,071 from which £28,032 is deducted as 'losses absorbed by subsidiary companies'. The accounts, says the chairman, do not show the full extent of group losses, as two former subsidiaries, Tenaplas Ltd and Creston Electric Ltd, jointly lost in excess of £170,000. It was the drain of supporting these two ventures, coupled with a substantial loss in the radio and television section of the group which account in the main for the poor financial results.

Mr Homfray-Davies sees the experiences of Tenaplas and Creston as 'tragic examples of over-trading, over-zealousness in entering tricky and competitive markets, and inadequate market research regarding what were primarily new products'.

The group, he says frankly, had no finances to enter these very competitive fields. Inter-company borrowing was resorted to on a wide scale, so that even the profitability of successful members of the group was substantially impaired. Not only finances were grievously overstrained; the diversion of top executives to work on these newer members of the group also contributed to the bad results.

Camp Bird eventually took over the two subsidiaries for a nominal consideration, with a view to rationalization and reorganization within the wider Camp Bird group.

Money Market

The week's Treasury bills brought a slightly higher rate last Friday. The average came out at £6 12s 1.19d per cent against the previous week's £6 12s 1.02d per cent. With the bid held at £98 7s 0d per cent the market secured 55 per cent, or slightly more than the previous week's 51 per cent, at which rate £270 million against £250 million bills were allotted.

THE BOWATER PAPER CORPORATION LIMITED AND SUBSIDIARY COMPANIES INTERIM CONSOLIDATED FINANCIAL STATEMENT

Six months ended 30th June 1956		FOR THE SIX MONTHS ENDED 30th JUNE 1957		Six months ended 30th June 1956		Notes
\$	\$			£	£	
108,608,000	125,471,000	Sales value of paper, pulp and other products		44,811,000	38,789,000	(i) Figures in respect of companies operating overseas have been converted into sterling at rates of exchange ruling on 30th June 1957.
16,633,000	21,515,000	Sales of power and merchant goods; charges for services		7,684,000	5,940,000	
\$125,241,000	\$146,986,000			£52,495,000	£44,729,000	
21,602,000	23,248,000	Profits on Trading and other revenues of the Corporation and its subsidiary companies		8,303,000	7,715,000	(ii) During the period, exchange losses amounting to approximately \$950,000 were incurred on sales by our Canadian mills to customers in the United States of America.
5,572,000	6,737,000	Depreciation and amounts written off		2,406,000	1,990,000	
16,030,000	16,511,000			5,897,000	5,725,000	(iii) The provision for taxation is an estimate based on legislation presently in force. A more precise calculation cannot be made until the results for the full financial year are known. No provision has, however, been made for Profits Tax on dividends distributed or to be distributed by the Corporation.
1,314,000	2,360,000	Interest on Loan Capital of subsidiary companies		843,000	469,000	
14,716,000	14,151,000	Consolidated Profits before Taxation		5,054,000	5,256,000	(iv) For the convenience of stockholders resident in North America the financial statement has also been expressed in dollars for which purpose a conversion rate of \$2.80 to the £1 has been used.
7,280,000	5,684,000	Provision for United Kingdom and Overseas Taxation		2,030,000	2,600,000	
7,436,000	8,467,000	Consolidated Profits after Taxation		3,024,000	2,656,000	
278,000	1,100,000	Dividends on Preference Capital of Subsidiary companies publicly held and proportion of profits attributable to minority interests		393,000	99,000	
\$7,158,000	\$7,367,000	Balance of Profits attributable to the Corporation		£2,631,000	£2,557,000	
330,000	431,000	Corporation Interest and Dividends paid or accrued for the period less income tax		154,000	118,000	
321,000	321,000	Interest on Loan Capital		115,000	115,000	
\$651,000	\$752,000	Dividends on Preference Capital		£269,000	£233,000	

MARSHALL FIELD & COMPANY

The results of our operations for the three and six months' periods ended July 31, 1957, compared with the corresponding periods in 1956, are as follows:

	Periods Ended July 31			
	Three Months	Six Months	Three Months	Six Months
	1957	1956	1957	1956
Net Sales	\$46,706,223	\$43,945,590	\$93,978,081	\$87,870,222
Net Income	902,323	1,118,346	1,986,636	2,309,579
Net Income per Preferred Share	6.02	7.46	13.24	15.40
Net Income per Common Share, after Preferred Dividends	.38	.49	.85	1.02

If you were a Common Shareholder of record at the close of business on August 15, 1957, a quarterly dividend check is enclosed in the amount of fifty cents for each Common Share held on that date. The second quarterly dividend on the 4½% Cumulative Preferred Shares was paid June 30, 1957, to all holders of such shares of record at the close of business on June 15, 1957.

BY ORDER OF THE BOARD OF DIRECTORS

The Gilt-edged Market

	June 30th	Sept. 30th		June 30th	Sept. 30th
Consols 4% 1957 aft. ..	74 7/8	x.d. 69	British Electric 4½% 1974-79	85 1/8	79 1/8
Consols 2½% 1923 aft. ..	50 1/4	x.d. 45 1/2	British Electric 3½% 1976-79	74 1/8	70 1/8
Conversion 3½% 1969 ..	83 1/8	80 1/8	British Electric 3% 1968-73 ..	73 1/8	70 1/8
Conversion 3½% 1961 aft. ..	68	60 1/8	British Electric 3% 1974-77 ..	71 1/8	66 1/8
Funding 4% 1960-90 ..	87 1/8	86 1/8 x.d.	British Gas 4% 1969-72 ..	85 1/8	81 1/8
Funding 3½% 1999-2004 ..	72 x.d.	63 1/8	British Gas 3½% 1969-71 ..	81 1/8	78 1/8
Funding 3% 1966-68 ..	79 1/8	78 1/8	British Gas 3% 1990-95 ..	64 1/8	58 1/8 x.d.
Funding 3% 1959-69 ..	79	77 x.d.	British Transport 4% 1972-77	81 1/8	78 1/8
Savings 3% 1955-65 ..	87 1/8	84 1/8	British Transport 3% 1968-73	73 1/8	70 1/8
Savings 3% 1960-70 ..	76 1/8	74 1/8	British Transport 3% 1978-88	64 1/8	59 1/8
Savings 3% 1965-75 ..	71 1/8	68 1/8	Conversion 4½% 1962 ..	98 1/8	93 1/8
Savings 2½% 1964-67 ..	79 1/8	77 1/8 x.d.	Conversion 4% 1957-58 ..	99 1/8	98 1/8
Treasury 3½% 1977-80 ..	74 1/8	70	Conversion 2% 1958-59 ..	96 1/8	95 1/8
Treasury 3½% 1979-81 ..	74 1/8	68 1/8	Exchequer Stck. 3% 1962-63	90 1/8	88 1/8
Treasury 2½% 1975 aft. ..	50 1/8	45	Exchequer Stck. 2½% 1963-64	86 1/8	84 1/8
Victory 4% by 1976 ..	92 1/8	93 1/8	Exchequer 3% 1960 ..	96 3/8	94
War 3½% 1952 aft. ..	68 1/8	63	Exchequer 2% 1960 ..	93 1/8	92 1/8
			Funding 2½% 1956-61 ..	92 3/8	89 1/8
			Serial Funding 2½% 1957 ..	99 1/8	99 1/8
British Electric 4½% 1967-69	91 1/8	89 1/8	War 3% 1955-59 ..	96 1/8	95

Current Law

Obsolete Restrictive Covenants

In *Re Freeman-Thomas Indenture, Eastbourne Corporation v. Tilly and Others* ([1957] 1 All E.R. 532) resort was had to a useful provision of the Law of Property Act, 1925, namely, Section 84 (2), which provides:

'The Court shall have power on the application of any person interested - (a) To declare whether or not in any particular case any freehold land is affected by a restriction imposed by any instrument; (b) To declare . . . whether the same [the restriction] is enforceable and if so by whom.'

The applicant, the Eastbourne Corporation, had in 1901 on the purchase of 82 acres of land, part of a settled estate, entered into restrictive covenants not to build on the land without the consent of the owner for the time being of the settled estate. The land was used as a public park. The estate had subsequently ceased to exist and there was no one entitled to enforce the covenants. The applicant wished to build on a small part of the land a school and was willing to substitute another piece of land for that built upon.

Thirty-seven persons having interests in plots of land more or less adjacent to the plot upon which it was proposed to build were joined as respondents, but none of them entered an appearance in the proceedings. In fact Harman, J., held that none of them could successfully have claimed to be entitled to enforce the covenants, because they were not made with the owner for the time being of any part of the estate, but with the owner of the estate as a whole. His lordship decided that he could properly exercise the discretionary jurisdiction given to him by Section 84 (2) of the Law of Property Act, 1925, to declare that the land upon which the applicant desired to build was not affected by the covenants, and that those covenants were not enforceable by any person. He added that he did not think that the Court was entitled in such a case to make a general order (applying to the whole of the land affected by the covenants) but only to declare that the land brought to its notice on the particular application was or was not subject to the operation of the covenants.

Mortgagor's Power of Leasing

Under Section 99 of the Law of Property Act, 1925, a mortgagor has wide powers of leasing the mortgaged premises, but *Hughes v. Waite and Others* ([1957] 1 All E.R. 603) shows that these powers do not exist before the mortgagor has any interest, legal or equitable, in the mortgaged land. The plaintiff sold the land and the dwelling-house thereon to the first three defendants on October 26th, 1955, and £1,000 out of the £1,700 purchase money was left on mortgage. Prior to this date the first three defendants had purported to let flats in the house to the

remaining three defendants, taking in each case 'rents' in advance. No part of the mortgage debt was repaid and no interest was paid thereon.

The plaintiff, as mortgagee, decided to exercise her right of taking possession and found the last three defendants in possession, claiming to be tenants and to have paid all rent due for three years. The plaintiff then started proceedings for possession, and Harman, J., held that she was entitled to the order which she sought. His lordship held that the mortgagors could not have created leases valid against the mortgagee earlier than October 26th, 1955, and, although the first three defendants might be estopped from denying the rights of the persons in possession, the mortgagee was not estopped from denying that proper agreements had been made. Furthermore, the so-called 'rents' which had been paid were fines and the taking of fines is forbidden by Section 99 of the Law of Property Act, 1925, subsection (6) of which provides that every lease made by a mortgagor

' . . . shall reserve the best rent that can reasonably be obtained, regard being had to the circumstances of the case, but without any fine being taken.'

The learned judge pointed out that it was clear that if the mortgagor was to have the power of leasing, it must be a power which he must exercise as much for the mortgagee's as for his own benefit.

Power given by English Settlement: Exercise by Testatrix Domiciled Abroad

Section 27 of the Wills Act, 1837, provides that a residuary bequest operates as an effective exercise of a general power of appointment of personalty, unless a contrary intention shall appear by the will. *Re Waite's Settlement Trusts, Westminster Bank Ltd and Another v. Brouard and Others* ([1957] 1 All E.R. 629) was concerned with the exercise by a testatrix domiciled in Guernsey of a power of appointment of a fund subject to a settlement and a deed of appointment governed by English law.

The testatrix by her will gave 'the rest residue and remainder of the portion of my personal estate whereof I have the disposal according to law to [E.] absolutely'. By the law of the testatrix' domicile she could dispose by will of one-half only of her personal estate, the other half passing to her children; nor, by that law, was the residuary bequest effective to pass any part of the trust fund. Danckwerts, J., held, however, that the law of England governed the question whether the power of appointment had been effectively exercised, and that it had been so exercised, because there was in the testatrix' will no indication of a contrary intention as mentioned in Section 27 of the Wills Act.

His lordship said that as the power of disposition was wholly derived from the operation of instruments regulated by the law of England he found it difficult to see why the ability to dispose of the appointed

property should not be regulated wholly by the rules of English law. He adopted as correct the statement in 7 *Halsbury's Laws of England* (third edition), page 62, that

'If an appointment under the power is valid by English law, no restriction placed by the law of the testator's domicile on the power of disposition can have any effect, the reason being that such restrictions apply to property, and a power of appointment is not a right of property.'

Gift by Will to a Class: When does Class Close?

When a testator makes a gift to a class of persons it is commonly difficult to determine at what point in time the class must be taken to be closed, so that it is determined who is within it. Such a difficulty arose in *Re Ransome's Will Trusts, Moberley and Others v. Ransome and Others* ([1957] 1 All E.R. 690). The testatrix directed trustees to hold certain shares on trust to pay and apply any dividend declared thereon towards the expenses of the education of the children of R. as the trustees thought fit, and that 'any part of the income not expended as aforesaid shall be accumulated until the youngest child of [R.] shall attain the age of 21 years'. Upon that event happening the trustees were to stand possessed of the shares and the accumulated income therefrom upon trust for such of R.'s children as should then be living and if more than one in equal shares. Should no child of R. attain 21 the trustees were to hold the shares and the accumulated income thereof upon the trusts of another fund, the W. R. Fund.

The trustees of the will issued an originating summons for the construction of the will, R. being still alive. At the date of the testatrix' death (in 1935) R. had two children living, a son and a daughter, but the daughter had since died, an infant and unmarried. His son, D., had attained the age of 21 and now claimed to be absolutely entitled to the fund in question on the basis that the gift was a gift to the youngest child of R. living at the testatrix' death and attaining 21 so that he, being the only child living at the testatrix' death who had attained 21, was alone entitled to it. Upjohn, J., rejected this contention, finding as a matter of construction that the children of R. whenever born (and not only those born in the testatrix' lifetime) were within the class to whom the fund was given. His lordship also rejected a submission that he should have regard to the policy of the law favouring early vesting of interests, holding that that policy should not be applied except where there was someone in existence who could say, on the natural construction of the will, that his share had absolutely vested in interest and possession (which D.'s had not), albeit it could not be said what share had as a matter of *quantum* so vested.

Accumulation and Maintenance

The next point which the learned judge had to consider was the impact of the rule against accumulations on the directions to accumulate until the youngest

child attained 21, a direction which plainly infringed the rule so that it was necessary to determine for what period the term was valid. His lordship held that the permitted period of accumulation which the testatrix must have had in mind was a term of twenty-one years from her death (Section 164 (1) (b) of the Law of Property Act, 1925).

The next question for determination was the destination of the income of the fund from the expiry of twenty-one years from the death of the testatrix until it was known when the gift vested. D. claimed it on the basis of the rule that a contingent future specific or residuary gift carries the intermediate income unless a contrary intention is shown in the will, and also in reliance on Section 31 (1) (ii) of the Trustee Act, 1925, which provides that if a person on attaining 21 has not a vested interest in income of settled property the trustees shall

'... thenceforth pay the income of that property ... to him, until he either attains a vested interest therein or dies, or until failure of his interest.'

Upjohn, J., held that the case before him was not one in which the rule applied: D.'s interest was contingent on his being alive when R.'s youngest child attained 21 - the fact that D. might prove to be the youngest child of R. to attain 21 made no difference - and the rule did not entitle a member of the class whose share had not vested to claim payment of income before vesting.

His lordship rejected the argument which relied on Section 31 (1) (ii) of the Trustee Act because that provision has no effect when a 'contrary intention' within Section 69 (2) of the Act appears in the will, and the express direction to accumulate was such a contrary intention, nor did it make any difference that that direction was in part invalidated. His lordship held that the undisposed of income was to be held upon the trusts of the W. R. Fund.

Advancement of Music Charitable

The testatrix in *Re Delius' Will Trusts, Emanuel and Another v. Rosen and Others* ([1957] 1 All E.R. 854), the widow of the composer Delius directed her trustees to apply the income from the royalties on his work (to which she was entitled) and of her residuary trust fund towards the advancement of his musical works. It was not in dispute that the standard of Delius' works was so high that there was no question as to his adequacy as a composer. Roxburgh, J., upheld this trust as charitable as being for the advancement of the art of music, even though it was restricted to the music of one composer. It made no difference that the testatrix had made a gift over to her brother in the event of it appearing to her trustees that the charitable purpose had been fulfilled to the fullest possible extent, because it could never be said that that condition had been fulfilled. Thus the rule that a charitable trust must not have inherent in it the potentiality of individual profit for a non-charitable beneficiary had no application.

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

'An Insurance Broker's View of CARBS'

SIR, - We have read with great interest the article in your September 28th issue entitled 'An Insurance Broker's View of CARBS', which we regard as a very fair and unbiased appreciation of the alternatives open to an eligible Chartered Accountant who wishes to make provision for his retirement.

The authors have correctly deduced the general intention that the best present terms should be obtained, coupled with a satisfactory long-term guarantee. Hence the decision to invest in non-profit contracts in all sections.

It would have been possible, as is indicated, to secure rather better immediate terms with a reduction in the rate of interest involved in the guarantee, but this course was rejected.

The authors indicate that the terms of reversionary annuity offered under Section B are very satisfactory and demonstrate that if a with-profit contract had been selected there would have been a smaller widow's annuity immediately available. It is believed that members entering this section will wish to provide the best possible benefits for themselves and for their widows but will not be interested in a benefit payable after the death of both. For this reason, no return is given in the case where the wife dies before the member and he, too, dies before retirement. To have provided such a benefit would, of course, have made the principal benefits less attractive.

One point arises on the comparison between the terms offered by the 'London & Manchester' to members of the scheme, with those offered to the general public. The minimum rates in the general scheme are guaranteed only for contributions on the anniversary of the original entry, whilst under CARBS they are available at any time throughout the year. This is an obvious advantage, since it enables the member to watch the stock-market and make a further contribution at a favourable time. Members of the general public may, of course, effect a new policy on whatever terms are then available, so that this limitation may be more apparent than real.

All-in-all, there is much to be said for paying into the scheme more than the minimum £50 needed to secure the guarantee under Sections A, B and C, and the corresponding £100 in Section D. As with all forms of life assurance and annuity business, much time can be spent in searching for the best possible contract. We suggest that the increase in benefit likely to be obtained by this quest is hardly sufficient to justify it, and that full membership of the scheme provides the busy accountant with a comprehensive pattern of retirement benefits under the Finance Act, 1956, on highly satisfactory terms without involving

him either in consultation with professional advisers or in an exhaustive study of possible alternatives.

Yours faithfully,

BACON & WOODROW,
Scheme Secretaries of CARBS.

Southend-on-Sea.

Training for the Profession

SIR, - We are not alone in our preoccupation with this subject; under the titles of 'professional education', 'technological education' or 'vocational training' it is being examined with great thoroughness in all industries, trades and professions, at home and abroad. Of course, every accountant knows what it means when his client tells him, 'But my business is different!', and perhaps it is not too late to put in a plea that professional education is primarily education.

As such, there are certain principles which can be useful to us in our particular problem. The ideal method of tuition, for example, is personal tuition, one teacher for one student; this was the basis of all vocational training until comparatively recently, and underlies the idea of articles. It presupposes, however, that the teacher shall have the time and the qualifications to provide the student with all the training he requires, practical and theoretical. Obviously, this assumption is today invalid, and has been for many years.

The first sign of its invalidation was the rise of the correspondence college. Nothing which costs money succeeds unless there is a need for it, and it is quite clear that, by the First World War, the practitioner either had not the time or was not competent to look after his articled clerk's theoretical studies. The consequent separation of theoretical from practical training, which is directly opposed to accepted educational principles, marked the origin of our present difficulties.

In the first place, it contravenes the rule, 'No responsibility without control'. If a teacher is to be able accurately to measure the rate of progress of his students, he must know that his teaching methods and standards of checking are not being disturbed by outside influences, of which he is unaware. When a correspondence course student performs satisfactorily, to what are we to attribute this? It may be due to diligence, or to intelligence, or to the accident that he has just been given practical experience of the matter in question. If there is no communication between correspondence college and principal, as is usually the case, then the latter has no way of checking the progress being made by his articled clerk in his theoretical studies. There are, of course, other ways in which a principal can satisfy himself as to his articled clerk's ability, but examinations are not passed on ability alone.

Secondly, the separation of theoretical and practical training contravenes the educational rule that these two shall go hand in hand. On one side, we have the correspondence college, fully conscious of its responsibilities, trying to give the student an awareness of the highest contemporary standards of professional knowledge. Against them, there are a vast number of professional offices where articled clerks must conform to a much lower standard of practical performance, or where they have no experience of the practical sides of one or more of the subjects studied. This is detrimental to the student's confidence in his teachers.

Further, if the practical work precedes the theoretical study, harmful habits may be ineradicably acquired; if it succeeds it at too great a distance, then the theoretical study is forgotten by the time the practical work must be done. There is no way in which a correspondence college can ensure that synchronization which a public educational institution can achieve.

Another valuable educational principle is that the teacher and the examiner should be quite distinct, and this is, of course, respected in accountancy training. But it is usual for their separation to be made within the framework of an educational system, so that the examining body may re-set its standards in the light of social requirements, as measured by the student's subsequent achievements in the life for which he has been prepared. The hiatus between examining body and teaching institution must mean that changes in curriculum are not made until long after they are due, and changes in standards are almost impossible to make except very gradually, over a long period of years.

The idea of research into students' achievements after graduation is a new one, but it is gaining ground and has an obvious importance in professional education. Competing correspondence colleges cannot compare their experiences, or pool their statistics, nor frankly is there any incentive for them to carry out such studies. Even in the more immediately remunerative field of students' passed and failed statistics, they would need to combine their experiences in order to evolve valuable information for decreasing the quantity of students who fail. But I have already suggested that the faulty educational system is responsible for the high wastage experienced.

Finally, it is not a rhetorical question to ask, What kind of an educational system do we have? We have no director of education, no schools, no inspection, and no provision for up-grading the product after qualification. In commenting upon the Law Society's recent conference, *The Times* Special Correspondent remarked upon the equanimity with which members accepted training suggestions 'which would appear to be revolutionary'. They are to be complimented on their far-sightedness. Do Institute members realize just how important this question of training is, and how it can affect their status twenty years from now?

Yours faithfully,

London, SW10.

KENNETH S. MOST.

Finance for Family Businesses

SIR, - In Mr A. R. English's most interesting paper on 'Finance for Privately-owned Businesses' (August 31st and September 7th issues), he states in paragraph 104 'to refuse to allow the one class of investor, who ultimately may be the only source of risk capital, to have more than a limited participation in profits . . . is not the way to create a good relationship which must exist between the business and its financial backers'.

It would be interesting to learn of the names of investment trust companies and finance corporations that fall under the category of providers of risk capital. I believe that the I.C.F.C. was specifically formed to fill a gap in the capital market. Who else is there that a financial adviser could approach for the smaller or medium-sized family business apart from the I.C.F.C?

Yours faithfully,

CHARTERED ACCOUNTANT.

[Mr A. R. English writes: To give a complete list of the names of the various institutional investors who are willing to provide risk capital for the family business would be an impossible task. Nevertheless, the following names readily spring to mind:

Charterhouse Industrial Development Company Ltd.
Estate Duties Investment Trust Ltd.
Glasgow Industrial Finance Development Ltd.
Industrial Finance and Investment Corporation Ltd.
Private Enterprises Investment Company Ltd.
Safeguard Industrial Investments Ltd.
United Dominions Trust Ltd.

I would draw your correspondent's attention to the publication by The Association of Certified and Corporate Accountants called *Sources of Capital*. He might find this helpful.

One should not, of course, forget that certain insurance companies are also interested in investing in well-established family businesses.]

Dispensing with Receipts

SIR, - May I express my complete agreement with Mr H. F. Joyce on his letter in your issue of September 21st, and I have similar plans.

While the Act makes the provisions, positive action is necessary by accountants so that all may benefit. If a positive and prompt lead is not given by the majority of firms, the requests for receipts that would flow in could well prove more costly and troublesome than the present practice. While such requests should diminish with time, a reasonably uniform and concerted effort by all or most firms along the lines in the letter in question would do much to establish the new routine with the minimum amount of teething trouble.

The question that poses itself is: To what degree is the principle accepted, and to what extent will it be implemented? Other comments would be welcomed.

Yours faithfully,

O. C. I. SPICER,
Chief Cost Accountant,
P. P. PAYNE & SONS.

Nottingham.

'Accountancy Economics'

SIR, - I was interested to read in your issue of September 21st, that the American Institute of Certified Public Accountants has set up a new department to assemble information on the economic facts of public accounting and on the problems of conducting a practice. Although it may not always be wise to copy the Americans, I am certain that this is a case where our own Institute would do well to follow the American lead.

You say in your editorial that one of the objectives of this new department will be to consider whether the profession is being sufficiently remunerated. Surely this is an even more urgent problem in this country. Many accountants earn little more than skilled tradesmen and most of us are the poor relation of commercial travellers.

In these circumstances an inquiry is long overdue.

Yours faithfully,

A. C. A.

The Special Constabulary

SIR, - A letter last week sought to encourage recruitment to the Territorial Army, but the extra fortnight away is a very real difficulty for many employers, however patriotic. I hope there will be a good response to the appeal, but for those who cannot be so spared, there is a valuable form of service available in the Special Constabulary. In this case, duty is normally performed after office hours.

The work is most interesting and the inquiring mind of the trained auditor should find plenty of scope. Those prepared to give some two evenings a month may obtain full particulars from any Police Station.

Yours faithfully,

London, EC2. J. WILBUR G. COCKE.

Business Stationery: Director's Names

SIR, - The opinions of readers would be appreciated on the question of Section 201 of the Companies Act, 1948, which requires that the names of directors shall be shown

'in all trade catalogues, trade circulars, showcards and business letters, on or in which the company's name appears . . .'

It is obvious that the business letters of many leading industrial firms do not give the statutory information. Is this because exemption has been obtained from the Board of Trade, or is little account now taken of this section?

Yours faithfully,

COMPSE.

**Advertising Expenses, Sales and Profits:
Comparative Figures**

SIR, - Having spent several infructuous days in contemplation of world-wide advertising figures for a period of years, of a company with several varying products in the alimentary field, I would like to beg the assistance of your readers on this problem. There would not appear to be any reasonable basis of comparison of advertising expenditures and sales and net profit results. In general, advertising expenditures are budgeted on a percentage of estimated yearly sales, but political or economic factors would appear to invalidate any firm opinion of the resulting figures.

No helpful literature has been found on this subject, but I wonder if any of your readers know of any source which would help to give a clear picture of the expected pattern for advertising expenditures.

Yours very truly,

MORE THAN PUZZLED.

Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

James Hobson & Sons Limited v. Newall

(Before Mr JUSTICE HARMAN)

In the High Court of Justice (Chancery Division)

July 3rd, 1957

Income tax - Building company - House built in pre-war years to let - Houses let when left unsold - Sales of houses after the War - Whether proceeds of sale taxable - Income Tax Act, 1952, Schedule D, Case I.

The appellant company built houses and other structures between 1927 and 1939. It built principally on contract for a local authority, but it also engaged in the speculative building of houses. In 1929 the market for houses for sale was slack and the company built houses to let. Furthermore, some houses, which the company had erected for sale, remained unsold

and were let. After the end of the War the company sold from time to time all its let houses as vacant possession was obtained. The company acquired in 1927 a piece of land, on which stood two houses, in order to build a garage for its trading purposes. These houses were sold in 1950.

The company contended that the houses in all three categories were investments and that the proceeds of sale represented capital receipts of the company. The General Commissioners decided that all the houses were trading stock of the appellant's business and that the proceeds of sale were taxable receipts of that business.

Held, that the General Commissioners' decision was correct.

CHEQUES ACT, 1957

CHANGES IN ENDORSEMENT PROCEDURE

On October 17th, 1957, the Cheques Act will come into force bringing with it important changes in the law and practice relating to the endorsement of cheques. Statements dealing with these changes issued by The Committee of London Clearing Bankers and The Institute of Chartered Accountants in England and Wales are reproduced in full below, and are discussed in a leading article elsewhere in this issue.

Statement of The Committee of London Clearing Bankers

The Act, which is the outcome of public demand, is designed primarily to dispense with the necessity for the endorsement of cheques which are paid in to a bank *for the credit of the account of the payee*.

On and after October 17th, 1957, the procedure set out below will apply:

(1) *Endorsement will not be necessary* in the following cases:

(a) *Cheques paid in for the credit of the account of the payee.*

Where a cheque is paid in to a bank for the credit of the account of the payee, endorsement will not be required. (This applies whether the account is kept at the branch at which the cheque is paid in or at another branch of that bank or at another bank.)

(b) *Cheques paid in for the credit of a joint or partnership account.*

Cheques payable to an individual will normally be accepted without endorsement for the credit of a joint or partnership account provided the payee is one of the account holders.

N.B. - Where the name of the payee is misspelt or the payee is otherwise incorrectly designated the cheque will normally be accepted for collection without endorsement unless there is some circumstance to make it appear that the customer is possibly not the person to whom payment is intended to be made.

(2) *Endorsement will continue to be necessary* in the following cases:

(a) *Cheques cashed or exchanged across the counter.*

It is considered that the public interest will best be served by continuing existing practice in regard to cheques cashed or exchanged. The Mocatta Committee set up by the Government to examine the whole question of endorsement attached importance to endorsement of such cheques as possibly affording some evidence of identity of the recipient and some measure of protection for the public.

(b) *Negotiated cheques, i.e. cheques tendered for the credit of an account other than that of the ostensible payee.*

In such cases the endorsement of the payee, and any subsequent endorsee, will be required, but *not* the endorsement of the customer for whose account the cheque is collected. Thus a trader who cashes for his customer a cheque which is not payable to the trader must continue to see that the cheque is properly endorsed but will not himself need to endorse it when paying in for credit of his account.

(c) *Cheques payable to joint payees.*

These will require endorsement if tendered for the credit of an account to which all are not parties.

(d) *Bills of Exchange* (other than cheques) and *Promissory Notes*.

(3) The following Instruments will, for the present, require endorsement as heretofore:

Drafts drawn on H.M. Paymaster-General or the Queen's and Lord Treasurer's Remembrancer.
Drafts and other Instruments drawn on the General Post Office or payable at a post office.

Inland Revenue Warrants.

Drafts drawn on the Crown Agents, High Commissioners for the Union of South Africa, Pakistan and India, the Commonwealth Relations Office and other paying agents.

Travellers' cheques.

Instruments payable by banks abroad.

Instruments payable by branches of banks situated in the Channel Islands or the Isle of Man.

Instruments payable by banks situated in the Republic of Ireland. (These can be distinguished by the fact that they bear the rectangular green revenue stamp of the Republic.)

(4) *Combined Cheque and Receipt Forms.*

A bold letter 'R' on the face of a cheque is to be the indication to the payee that there is a receipt which he is required to complete.

Section 3 of the Act, supported by the authoritative opinion of the Mocatta Committee, should render an endorsed receipt unnecessary unless the circumstances are exceptional. This section provides that 'an unendorsed cheque which appears to have been paid by the banker on whom it is drawn is evidence of the receipt by the payee of the sum payable by the cheque'.

The Mocatta Committee expressed the opinion 'that in law a simple receipt for a payment by cheque not linking the payment with the relative transaction has no greater value as evidence of payment than the paid cheque itself. This is so whether the receipt is printed on the cheque or is issued separately'.

In order that the maximum saving of labour by all concerned may be obtained as a result of the new legislation, it is hoped that it will be found possible to dispense with the use of receipt forms on cheques in all but the very limited number of cases.

In this notice references to 'cheques' include dividend and interest warrants and other analogous instruments and the term 'endorsement' includes discharge where applicable.

Statement of the Council of The Institute of Chartered Accountants in England and Wales

(1) This statement is issued by the Council of the Institute in response to numerous requests from members, both in practice and in industry, for guidance in relation to the Cheques Act, 1957, which comes into force on October 17th, 1957.

(2) The Act relieves paying bankers of responsibility for examining endorsements, though a collecting banker will in certain circumstances require an endorsement. Section 3 states that

'an unendorsed cheque which appears to have been paid by the banker on whom it is drawn is evidence of the receipt by the payee of the sum payable by the cheque'.

(3) In view of these changes in the law the clearing banks have expressed the hope

'that it will be found possible to dispense with the use of receipt forms on cheques in all but a very limited number of cases'.

On and after October 17th, 1957, the banks will not examine receipts on cheques which do not bear the special 'R' marking required by them under their new arrangements.

(4) A paid unendorsed cheque will in future be evidence of payment to the person named in the cheque and it is therefore important that when drawing a cheque the name of the payee should be stated correctly. It is also advisable for cheques to be crossed *Not negotiable, account payee only*. If these precautions are taken the Council considers that, except in special circumstances referred to later, there is no need either to continue with the 'receipt on back' type of cheque or to obtain an ordinary receipt for a payment made by cheque. The result should be a very large reduction in the number of receipts issued by business houses and private individuals and consequently great savings in clerical and other costs.

(5) The precautions referred to in the preceding paragraph are necessary for the following reasons:

(a) To ensure that banks will collect cheques only for the intended payees, since the Committee of London Clearing Bankers has issued a leaflet from which it is clear that where there are name discrepancies the collecting banks will exercise discretion to avoid inconvenience to their customers: 'Where the name of the payee is misspelt or the payee is otherwise incorrectly designated the cheque will normally be accepted for collection without endorsement unless there is some circumstance to make it appear that the customer is possibly not the person to whom payment is intended to be made.'

(b) Subject to paragraph 6 below, to discourage the recipients of cheques from negotiating them to third parties, so that the drawer of a cheque will obtain the maximum benefit from Section 3 which applies only to unendorsed cheques.

(6) The use of a 'not negotiable, account payee only' crossing will cause considerable difficulty for payees who have no bank account or who for other reasons normally wish to negotiate their cheques to third parties. For payees who are known to be in this category the difficulty can be avoided by the use of cheques which are crossed 'not negotiable' without the words 'account payee only'. Where such cheques are used it is desirable to obtain an ordinary receipt from

the payee, but it is appreciated that some drawers of cheques may have to rely upon the endorsed cheque. The Council is advised that in this respect the new Act has not altered the position as set out on page 138 of the *Members' Handbook*, reproduced at the end of this statement, regarding the use of endorsed cheques as evidence of payment.

(7) The Council wishes to emphasize that a paid unendorsed cheque under the new law will, like a paid endorsed cheque or an 'R' cheque bearing a simple form of receipt, afford evidence only of the receipt by the payee of the sum stated on the cheque. It will not provide evidence of the consideration for which the payment was made. Records should, therefore, be so maintained as to provide a direct link between a paid cheque and the details of the transactions to which it relates. Members acting as auditors will as hitherto require whatever supporting vouchers they consider necessary in respect of payments made.

(8) There will be circumstances in which those making payments require a written acknowledgment from the payee linking the payment with the transaction to which it relates. In such cases it will be necessary either to obtain a separate receipt giving the necessary particulars or to continue to use an 'R' cheque on which wording is inserted by the drawer of the cheque identifying the payment with a specific transaction.

(9) The foregoing is an interim statement based upon a preliminary study of the Act. When experience of the operation of the Act has been gained the Council will consider whether a further statement could usefully be made.

Moorgate Place, London, EC2. October 2nd, 1957.

The following is a reproduction of the relevant passage on page 138 of the Members' Handbook referred to in paragraph 6 above:

As a result of inquiries received from a number of members, the following advice was obtained from solicitors in March 1951:

- (i) A person receiving a cheque in settlement of a debt due to him is under no legal obligation to issue a formal receipt unless requested so to do by the payer. There is no rule of law which says that a receipt is the only method of proving payment, but if a receipt is produced in evidence it must be duly stamped if the amount is not less than £2;
- (ii) The only reason why an endorsed cheque is less good evidence of payment than a receipt is that where one has a receipt written on an account there is no possible difficulty in identifying the payment with the particular debt. An endorsed cheque is undoubtedly of considerable value as evidence of payment, but it is not conclusive evidence because it must be proved that the cheque refers to the particular transaction in connection with which payment is disputed;
- (iii) If the drawer of a cheque holds a copy (supplied by the payee) of the account in respect of which the cheque was drawn, this would be of assistance to the payer in proving that the account has been paid but it would not necessarily be conclusive. If the payer frequently makes payment to the payee for invoices of the same amount, the only link between a particular invoice and a particular cheque would be the date and this would not necessarily be conclusive evidence.

Notes and Notices

PERSONAL

MESSRS COOPER BROTHERS & Co, of Princes House, Tinubu Square, (P.O. Box 592), Lagos, Nigeria, announce that as from October 1st, 1957, they have taken into partnership Mr JOHN MAXWELL TUKE MORRIS, A.C.A.

MESSRS TURQUAND, YOUNGS & Co announce that they are discontinuing the practices carried on by them in Rio de Janeiro, São Paulo and Santos, Brazil. The practices will for the future be carried on by and in the name of ARTHUR ANDERSEN & Co. The present local partners of TURQUAND, YOUNGS & Co's Brazilian firm will continue with ARTHUR ANDERSEN & Co.

MESSRS WARE, WARD & Co, Chartered Accountants, of 7 Unity Street, College Green, Bristol, 1, and Exeter and Torquay, announce that Mr A. L. ROWELL, D.S.O., F.C.A., is retiring from the partnership on December 31st, 1957, in order to take up an industrial appointment. Mr G. A. COOMBS, A.C.A., and Mr D. W. JENNINGS, A.C.A., have been admitted into the partnership as from September 1st, 1957. The name of the firm will remain unchanged.

MESSRS CARTER, CHALONER & KEARNS, Chartered Accountants, of Manchester, announce that as from September 30th, 1957, their address is Canada House, 3 Chepstow Street, Manchester, 1. Telephone: Central 9696.

MESSRS FRYER, SUTTON, MORRIS & Co, Chartered Accountants, announce that they have moved their London office from 12 Coleman Street to 5 London Wall Buildings, Finsbury Circus, London, EC2.

MESSRS MORISON, RUTHERFORD & Co, Chartered Accountants, of 20 Eastcheap, London, EC3, announce that their senior partner, Mr H. MCD. MORISON, retired from the firm on September 30th after nearly fifty years in practice.

MESSRS DICKSON, MIDDLETON & Co, Chartered Accountants, 20 Barnston Street, Stirling, announce that as from October 1st, 1957, they have assumed as partners Miss MARY C. MCWHIRTER, C.A., and Mr J. GORDON MCINTOSH, C.A., both of whom have been associated with the firm for a number of years. The name of the firm will remain unchanged.

MESSRS MIDGLEY, SNELLING & Co, Chartered Accountants, of Ibex House, Minories, London, EC3, announce that as from October 1st, 1957, they have taken into partnership Mr KEITH HARPER MIDGLEY, A.C.A., and Mr STANLEY MEDLICOTT VEREKER, B.A. (HONS.), A.C.A.

MESSRS WALL & TANFIELD, Chartered Accountants, of 118 Colmore Row, Birmingham, 3, and Chaddesley House, 196 Wolverhampton Street, Dudley, announce that they have entered into an arrangement with Messrs FOX & Co, Chartered Accountants (formerly of 192 Corporation Street, Birmingham, 4) whereby Mr R. O. BOWDEN, A.C.A., and Mr J. M. RAE, A.C.A., have become partners in WALL & TANFIELD, and Mr D. TANFIELD, F.C.A., Mr L. B. GARDNER, F.C.A., and Mr G. WILSON, C.A., have joined these two gentlemen as partners in FOX & Co.

MESSRS GOULD, PRIDEAUX & HARGREAVES, of 5 Guildhall Chambers, Basinghall Street, London,

EC2, announce that as from October 1st, 1957, they are amalgamating their practice with that of Mr RONALD WARLOW, T.D., F.C.A., late of Dundee House, 15 Eastcheap, London, EC2. The practice will be continued under the same name as heretofore.

PROFESSIONAL NOTES

Mr W. E. Ogden, M.C., F.C.A., chairman of The Delta Metal Co Ltd, has been appointed a director of James Booth & Co Ltd and of its subsidiary company John Wilkes, Sons & Mapplebeck Ltd.

Mr M. G. Talbot Rice, M.A., F.C.A., has been appointed chairman of the English & Caledonian Investment Co Ltd.

Mr Arthur L. Blower, F.C.A., has been appointed chairman of Guy Motors Ltd.

Mr Frank S. Smith, A.C.A., a director of S. G. Warburg & Co Ltd, has been appointed a director of St Martin's-le-Grand Property Co Ltd.

Mr R. A. Kinnes, C.A., for many years a director and financial adviser of Courtaulds Ltd, has expressed the wish to relinquish his directorship on attaining the normal retiring age of 65. The Board have accordingly accepted his resignation, with regret, as from September 30th, 1957.

Mr R. J. Richards, A.S.A.A., has been appointed secretary of Duple Motor Bodies Ltd as from September 16th, 1957.

Mr T. A. Greenwood, A.S.A.A., has been appointed a director of A. W. Bain & Sons Ltd, Incorporated Insurance Brokers, as from October 1st, 1957.

THE EDITOR OF TAXATION

Mr Percy F. Hughes, A.S.A.A., F.C.I.S., has been appointed Editor of *Taxation* in the place of Mr Ronald Staples, who relinquished the Editorship on September 30th, 1957. Mr Staples, who founded the paper thirty years ago, is now Editor-in-Chief.

Mr Hughes has been Assistant Editor for the past 15 years and is well known as a lecturer on all aspects of taxation.

CHARTERED ACCOUNTANT'S GOLFING SUCCESS

Mr Philip J. Hughes, A.C.A., a young chartered accountant with Messrs Annan, Dexter & Co, Chartered Accountants, of Ironmonger Lane, London, EC2, is to be congratulated on his fine victory in the recent *Evening News* golf tournament played over the Porters Park course at Radlett, Herts.

From an original entry of more than 7,000, Mr Hughes, an Essex county player, reached the final in which he defeated his opponent by two holes.

INCORPORATED ACCOUNTANT ORDAINED

Mr D. Brian James, A.S.A.A., of Swansea, who has entered Holy Orders, was recently ordained at Brecon Cathedral by the Bishop of Swansea and Brecon. Mr James has been appointed to a curacy at Pontardulais.

SOUTH WEST LONDON CHARTERED ACCOUNTANTS' DISCUSSION GROUP

The first meeting in the 1957-58 session of the South West London Chartered Accountants' Discussion Group will be held at *The Kingston Hotel*, Kingston upon Thames, next Monday, at 6.45 p.m. The chairman, Mr W. H. Marsden, A.C.A., will open a discussion on 'Profit measurement through management accounting'. Subsequent meetings will be held at the same time and place on the first Monday of each month.

The hon. secretary, Mr L. J. Ive, A.C.A., of Messrs Shipley, Blackburn, Sutton & Co, 52-53 Jermyn Street, London, SW1, will be pleased to receive inquiries from prospective new members.

CITY DISCUSSION GROUP

The Chartered Accountants' City Discussion Group will be holding the first meeting of its 1957-58 session at *The Cock and Bottle*, Laurence Pountney Hill, next Wednesday, at 6.15 p.m. There will be a film-strip demonstration of the I.B.M. United Kingdom Ltd 'Ramac' electronic device, to be followed (time permitting) by a discussion on 'The Cheques Act, 1957, and receipting', which will be introduced by the honorary secretary, Mr J. C. Durmin, A.C.A., A.S.A.A., of Messrs Clark, Battams & Co, Chartered Accountants, 32 Victoria Street, SW1, who will be pleased to receive applications to join the Group. Meetings are held on the second Wednesday of each month; the annual subscription is 5s.

THE BRITISH COMPUTER SOCIETY

The British Computer Society, which was formed earlier this year to provide a forum for the exchange of information between those who are concerned with the scientific and business aspects of computers, has announced that Dr M. V. Wilkes, F.R.S., Director of the Cambridge University Mathematical Laboratory, has accepted an invitation to become the first President of the Society.

The winter activities of the Society start on October 21st at Senate House, University of London, when Professor D. R. Hartree, F.R.S., will address the opening meeting on 'The machine's eye view'. Details of the other monthly meetings arranged for members are given below.

October 23rd, in the Great Hall, Northampton College of Advanced Technology, St John Street, EC1:

3 p.m.: General meeting of Business Group to discuss detailed reports of 1956-57 study groups.

5.20-6.50 p.m.: General meeting (continued): discussion on the experience of 1956-57 as a guide to study group procedure 1957-58.

November 18th, 6.15 p.m.: in the Conference Room at L.C.C. County Hall, London, SE1: Address by Mr A. J. Barnard, City Treasurer, Norwich Corporation, on 'Applications of a computer to the work of Norwich Corporation and plans for future use'.

December 16th, 6.15 p.m., at Northampton College of Advanced Technology, London, EC1: paper by Dr S. Gill (Ferranti Ltd) on 'Parallel programming: a study of

a new technique in digital computer programming'.
January 20th, 6.15 p.m., at York Hall, Caxton Hall, Westminster, SW1: paper by Dr N. Levin (Rank Precision Industries Ltd) on 'The physical principles of xerography'.

February 17th, 6.15 p.m., at York Hall, Caxton Hall, Westminster, SW1: address by Professor A. C. Aitken (Edinburgh) on 'Mental arithmetic, an historical review with demonstrations'.

March 17th, 6.15 p.m., at York Hall, Caxton Hall, Westminster, SW1: paper by Mr D. S. Greensmith (Boots Pure Drug Co Ltd). (Title of paper to be announced.)

April 21st, 6.15 p.m., at York Hall, Caxton Hall, Westminster, SW1: paper by Dr Frank Yates, F.R.S. (Rothamsted Experimental Station) on 'The use of an electronic computer in research statistics: four years' experience'.

May 19th, 6.15 p.m., at York Hall, Caxton Hall, Westminster, SW1: paper by Mr T. R. Thompson (Leo Computers Ltd) on 'Four years of automatic office work'.

June 16th: Annual general meeting and presidential address.

Study groups of about thirty members each will be discussing some twenty subjects during the 1957-58 session, ranging from management and administrative implications of computers to specific applications in industry and commerce.

Membership of the Society is open to anyone who has an interest in the use of electronic computers and computing techniques, and applications to join should be addressed to the secretary of the Society, 29 Bury Street, St James's, London, SW1. Annual subscriptions are £3 3s 0d for ordinary members (with entrance fee of £1 1s 0d); associate members (aged 21 to 25) £1 1s 0d; institutional members (corporate bodies, institutions, etc.) £10 10s 0d.

FIRST PROVINCIAL BRANCH FORMED

A north-western branch has now been formed in Manchester and will hold its first public meeting at 7 p.m. on Monday, October 14th, in the College of Science and Technology, Sackville Street, Manchester, 1. Dr B. V. Bowden, M.A., PH.D., M.I.E.E., Principal of the College, will preside and will address the meeting. Those unable to attend this meeting but who wish to take part in the activities of the branch should write to The Secretary, North-western Branch, The British Computer Society, College of Science and Technology, Manchester, 1.

'BOND-WASHING' RULES CONFIRMED

The Council of the Stock Exchange has now confirmed in slightly amended form the revised Rule 165a and the revised Appendix 47, referred to in a Weekly Note in our issue of August 31st last, relating to dealings in gilt-edged securities and designed to prevent 'bond-washing' operations. Following the circulation of the revised rules last month, various suggestions were submitted by member firms and some have been incorporated but, for the most part, the amendments relate only to points of detail.

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LOCAL LOANS FUND

The Treasury has announced that loans advanced to local authorities from the Local Loans Fund as from September 28th, until further notice shall carry the following rates of interest:

	Per cent
Loans for not more than 5 years ..	7½ (5½)
Loans for more than 5 years but not more than 15 years ..	6½ (6)
Loans for more than 15 years ..	6½ (5½)

The former rates, shown in brackets, were introduced on July 13th last. The new rates apply only to future loans; the rates of interest on existing loans are unaffected.

The changes now introduced are designed to keep the lending rates of the Public Works Loan Board in line with those prevailing in the market for loans to local authorities.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held next Monday, at 6 p.m., in the vestry at St Mary Woolnoth Church, Lombard Street, EC3. The Scripture for reading and thought will be 'The miracle of the cure of the madman'. (St Luke iv. 31-37.)

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday, Whole-day course (limited number) lectures on: 'London as a financial centre', by Mr J. B. Winton, B.COM., A.I.B. (assistant editor, *Lloyds Bank Review*) and on 'Taxable income', by Mr A. P. Hughes, F.C.A. Lecture, film and demonstration of punched-card accounting.

5.0 p.m. in Guildhall: President's meeting; address on 'The romance of business', by Sir Edwin Herbert, K.B.E., LL.D. (Immediate Past-President of the Law Society). The Lord Mayor will be present. Chairman: Sir Harold Gillett, M.C., F.C.A. (President of the Students' Society).

5.30 p.m., at Luton: Lecture on 'Consolidated accounts', by Mr P. E. Harris, A.S.A.A.

Tuesday, 5.30 p.m., at the Institute (limited numbers): Lecture and demonstration of Kalamazoo accounting methods.

Thursday, 5.15 p.m., at the Institute: Introductory course lecture: 'The fundamentals of accountancy', by Mr R. J. Carter, B.COM., F.C.A.

Friday, 5.15 p.m., at the Institute: Introductory course lectures: 'The functions and form of the profit and loss account and balance sheet', by Mr R. J. Carter, B.COM., F.C.A., and 'The English judicial system', by Mr Patrick W. Medd, Barrister-at-Law.

7.0 p.m., at Chelmsford: Lecture on 'Company finance', by Mr V. S. Hockley, C.A.

LONDON STUDENTS' COLUMN

News from the London Chartered Accountant Students' Committee

Integration

Much work is being done already in anticipation of the developments which will follow the end of the first stage of integration.

The amalgamation of the two London Students' Societies brings problems of policy, of organization and of finance. But it also brings opportunities of expanding still further the Society's help to students 'in the knowledge of the theory and practice of accountancy' which is the object specified in its constitution.

Residential Courses

After the very successful course recently held at Corpus Christi College, Cambridge, preparations are being made for a first-year course at Pembroke College, Cambridge, next spring and a senior course at Balliol College, Oxford, next September.

Chess

The unfortunate demise of the Chess Club is noted. The club captain, Mr N. Marks, has had to retire from the field and (as the position is not hereditary!) the vacancy has not yet been filled. The Chess Club has, therefore, temporarily ceased its activities. Any-

body willing to take on the job of organizing chess is invited to contact the Secretary of the Students' Society.

Library

The Library has received gifts of books from several recently-qualified members. The Society is always grateful for the generous action of recently-qualified members who donate their textbooks and *Students' Telephones* to the Library.

Examination Results

An analysis of the pass lists of the last two examinations show the number of passes in London and the provinces as:

	November 1956	May 1957
Final: London	201	161
Provinces	237	294
	438	455
Intermediate: London ..	302	267
Provinces	365	347
	667	614

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CLIENTS' UNLAWFUL ACTS

EVERY conscientious practising accountant, when acting in his professional capacity, is constantly on the alert for irregularities and, at the same time, hopeful that he will not find any. In the overwhelming majority of assignments, his optimism is justified. The great run of his clients are as upright as himself. Any apparent departure from the orthodox he encounters in the course of his examination may usually be regarded as an honest mistake or as a difference in the application of accounting principles, both of which may be adjusted by amicable discussion. Occasionally, however, the accountant in practice discovers that a client has been guilty of some unlawful act or default. He is then faced with the dilemma of reconciling his professional loyalties towards that client with his private responsibilities as a law-abiding citizen.

The first thing the accountant must do in these unhappy circumstances is to determine the legal nature of his client's transgression. This is not always easy because the criminal law of the United Kingdom is of gradual historical evolution and bears a patchwork pattern rather than the formal design of a premeditated plan. There are, however, three broad divisions of indictable offences - treason, felonies and misdemeanours. It is the last two categories with which the accountant, through his client, is most likely to become involved. Although a felony sounds graver than a misdemeanour, the distinction nowadays between them is for the most part arbitrary. Many types of misdemeanour are more serious and carry heavier penalties than certain felonies. Of the clear distinctions which do survive, the most important from the accountant's viewpoint are the special rules relating to principals and accessories which apply to felonies but not to misdemeanours. Because of the close and confidential nature of their business relations, it is essential that every practising accountant should appreciate fully his own legal obligations and liabilities when one of his clients commits either a felony or a misdemeanour.

In August of this year, the Council of The Institute of Chartered Accountants in England and Wales issued privately a statement for the guidance of members faced with this problem. The Council has now decided to give the document further publicity and we are pleased to have the opportunity of reproducing it in this issue. It is a first-rate judicial assessment of the questions of professional conduct and legal considerations involved and we recommend it to every accountant who wishes to uphold the integrity not only of himself and his firm but of his profession and of the law.

OPPRESSION OF A COMPANY'S MINORITY

FOR many years the Court has had power to order the compulsory winding-up of a company on a petition, by e.g. a minority shareholder, that it would be 'just and equitable' to do so but the Court exercised this jurisdiction very sparingly, refusing to order winding-up when it considered that some other remedy was available. In 1948 the position of minority shareholders was considerably strengthened as a result of the recommendations of the Cohen Committee.

The Cohen Committee also recognized that a winding-up order might be no more than a Pyrrhic victory for the petitioners in that the liquidation of the company might well destroy the value of their interests in it. For this reason Section 210 provides a special remedy for minority shareholders where the affairs of the company are being conducted in a manner oppressive to them. If the Court is satisfied about the oppression and thinks that winding-up would be justified on the 'just and equitable' principle but would unfairly prejudice the oppressed members, then the Court can make such order as it thinks fit with a view to ending the oppression. The order can regulate the conduct of the company's affairs or it can provide for the oppressed members' shares being purchased either by the other members or by the company itself.

However, although Section 210 has been invoked many times in the past nine years, there is apparently no record of any order having been made under it until March of this year, when the Scottish Court of Session granted an order in *Meyer and Lucas v. Scottish Textile and Manufacturing Co Ltd and The Scottish Co-operative Wholesale Society Ltd* ([1957] S.L.T. 250). The decision is a highly important one, particularly in the case of subsidiary companies which are not wholly-owned subsidiaries.

DR MEYER and MR LUCAS, the petitioners, were refugees from Nazi oppression. In 1944, as experts in the rayon cloth trade, they entered the employment of the Scottish C.W.S. which was anxious to enter that trade. Owing to controls, new-comers to the trade could not obtain the necessary licences and moreover DR MEYER and MR LUCAS were not willing to continue as mere employees. Accordingly a private limited company

was incorporated in 1946 with a share capital of 25,000 £1 shares, of which only 7,900 were issued; 4,000 to the Society, 3,450 to DR MEYER and 450 to MR LUCAS. It was subsequently agreed to increase their holdings to 17,500, 5,250 and 2,250 respectively but this agreement was never implemented. DR MEYER and MR LUCAS were made managing directors, three other directors being nominees of the Society.

At that time the Society owned a weaving mill with some idle looms and it was arranged that the mill should supply the company with cloth for dyeing, finishing and marketing. DR MEYER arranged for the necessary supplies of rayon yarn, which were invoiced to the Society, and he obtained the necessary licences. For some years the company prospered, and paid substantial dividends. To bring its shareholding up to the agreed 70 per cent, the Society sought to acquire the necessary shares from DR MEYER and MR LUCAS at par, but these gentlemen asked for a figure of £6 0s 11d per share, being the value fixed by the auditors. The Society's reaction was to drop the purchase negotiations and to embark on a policy of forcing down the value of the company's shares. When cotton control ended the Society set up its own 'merchant converting department' and the rayon output of the weaving mill was diverted to that department, leaving the company unable to obtain supplies at an economic price, if at all. The Society's policy was supported by its three nominee directors who made no attempt to protect the company from it. DR MEYER and MR LUCAS then offered their shares to the Society at £4 16s 0d per share. Thereafter the Society's board approved a recommendation that the company had served its purpose, and should if possible be put into voluntary liquidation, and that a letter be sent intimating that the Society did not wish to purchase the shares 'at the present time'. However, liquidation proved to be impracticable so the running-down policy was continued.

DR MEYER and MR LUCAS then presented a petition under Section 210 asking that the Society be ordered to purchase their shares at £6 0s 11d or such other price as the Court should think fit. The Court ordered the Society to buy the shares at £3 15s 0d per share.

INCOME APPORTIONMENT—I

by PETER WHITWORTH, B.A.

This article, in two parts, presents a general conspectus of the various rules for the apportionment of income between different persons both in general law and for tax purposes.

THE subject of apportionment, considered apart from taxation, is so amorphous that its boundaries are impossible to define with precision. In relation to the apportionment of income, the original common law rules were simple and arbitrary. These rules were modified by a series of Acts culminating in the admirable Apportionment Act, 1870, which contains in itself a logical scheme. However, in the sphere of equity, the courts of chancery have superimposed a number of rules of apportionment between persons entitled (under wills, and to a certain extent under settlements) to capital, and those entitled to income, which only too clearly betray their heterogeneous origins and have multiplied the complexities of executorship. These rules do not merely apportion income as such, they can also apportion capital to income.

If it could be said that all these rules had equal validity as between the persons concerned and the tax authorities, the law would be much simpler. It might even be simpler if we could say that none of the rules had any validity for tax purposes and were entirely replaced by a comprehensive scheme of apportionment contained in the taxing Acts. The actual situation is, of course, neither the one nor the other. The taxing Acts do contain some *ad hoc* rules of apportionment, and there are some rules of apportionment under the general law which have no effect for taxation purposes, but it is impossible to spell out any coherent plan for the simple reason that there is none. It is necessary to assimilate a large number of concrete instances as regards part of the field and to make an intelligent guess as regards the rest.

The Apportionment Act

At common law, interest on borrowed money was always apportionable, even though payable at fixed intervals. When a mortgagor agreed to the payment of interest on his death, that interest was deemed to be income accruing over his lifetime, not income arising in a single sum on his death (*Lewis* [1907] Ch. 296).

For other income the common law rule resembled the present income tax rule applying to interest and annual payments: periodical payments constituted income of the day when they fell due and there was no provision for apportionment. This

was unfortunate, for e.g., a landlord whose tenants contrived to bring their leases to an end just before rent day. Hence the remedial Acts ending with the Apportionment Act, 1870; Section 2 of which provides that

'all rents, annuities, dividends, and other periodical payments in the nature of income (whether reserved or made payable under an instrument in writing or otherwise) shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of time accordingly'.

However, the agreement etc. under which the payments are made may expressly exclude the Act (Section 7) in which case the common law rule will apply. Wills often exclude Section 2, so that income accruing before the death and paid after it goes to the life-tenant. Again, the so-called 'equitable rules of apportionment' supersede the Act (*Fawcett* [1940] Ch. 402).

'Rent' includes all periodical payments in lieu of, or in the nature of, rent (Section 5). It includes mineral royalties (*Coal Commission v. Earl Fitzwilliam's Royalties Company* ([1942] Ch. 365)) so that a time basis apportionment has to be taken, although it may be widely different from an apportionment based on minerals actually got. Rent payable in advance is not apportionable (*Ellis v. Rowbottom* ([1900] 1 Q.B. 740)).

'Annuities' in Section 2 includes salaries and pensions (Section 5) but not, it seems, a separation annuity (*Trevalian v. Anderton* [1897] 66 L.J. Q.B. 489). Annual payments made payable in policies of assurance are in any case excluded from the Act (Section 6). Director's remuneration of fixed amount was held by the court of first instance in *Moriarty v. Regent's Garage Company Limited* ([1921] 1 K.B. 423) to be 'salary' within Section 2, but doubt was thrown on this when the Court of Appeal reversed the decision on other grounds ([1921] 2 K.B. 766).

The expression 'other periodical payments in the nature of income' does not include the profits, as such, of a business (*Robbins* ([1941] Ch. 434)). These profits are only arrived at by making up accounts at arbitrarily determined intervals; for apportionment purposes there must be some fixed period of accrual. If, for instance, an annuitant agreed that the annuity should become payable in one sum on his death, computed by reference

to the period to the date of death, the Apportionment Act would not apply.

The provision for apportionment does not accelerate the due date of payment, it simply apportions the rights and liabilities in relation to the payment (Sections 3 and 4).

Dividends and the Apportionment Act

Although the word 'dividends' in Section 2 is immediately followed by the words 'and other periodical payments in the nature of income', the meaning of dividends is not cut down by those words; for Section 5 of the Act gives a wider meaning as follows:

"The word 'dividends' includes (besides dividends strictly so called) all payments made by the name of dividend, bonus, or otherwise out of the revenue of trading or other public companies, divisible between all or any of the members of such respective companies, whether such payments shall be usually made or declared, at any fixed times or otherwise; and all such divisible revenue shall, for the purposes of this Act, be deemed to have accrued by equal daily increment during and within the period for or in respect of which the payment of the same revenue shall be declared or expressed to be made, but the said word 'dividend' does not include payments in the nature of a return or reimbursement of capital."

The expression 'public companies' includes 'private companies' (see *White* ([1913] 2 Ch. 231)).

A dividend expressed to be paid out of the share premium account is a return of capital and therefore not apportionable (*Duff* ([1951] Ch. 923)). A dividend paid by the liquidator is not an income payment and therefore is equally outside the Act (*Armitage* ([1893] 3 Ch. 337)).

Dividends need not be paid at regular intervals to be apportionable. It does not matter when they are paid (provided it is before liquidation) but they must, to be apportionable, be expressed to be paid in respect of a definite period (*Jowitt* ([1922] 2 Ch. 442)). Merely expressing a dividend as an 'interim' dividend is not enough to refer it to any definite period (*ibid.*). The dividend expressed to be payable for a definite period is apportionable over that period, notwithstanding that the fund of profits out of which the payment is made in fact accrued over a different period. However, the fact that a dividend is expressed to be in satisfaction of so-called 'arrear' of cumulative preference dividends does not make the dividend apportionable over the years to which such arrears refer (*Wakley* ([1920] 2 Ch. 205)). But if such dividend is expressed to be paid out of the profits of a particular period, it would seem to be apportionable over that period.

Income Tax and Apportionment

The tax repercussions of the rules so far discussed are confined mainly to estate duty. If the owner or life-tenant of an income-producing investment dies, the income accrued to the date of the death must be brought into the valuation of his estate for duty purposes. For income tax, on the other hand, neither the common law rule for apportioning interest, nor the Apportionment Act, 1870, as such, applies (*C.I.R. v. Henderson's Exors.* (10 A.T.C. 292; 16 T.C. 282)).

If income tax were at a permanent universal flat rate tax collected by deduction, it would not much matter either to what year or to which individual a particular item of income were allocated. However, with different rates for different years and different individuals, it is necessary to apportion.

As to the allocation to a particular tax year, there are some comparatively simple provisions which cover, broadly speaking, all income from which tax is deductible at source other than dividends, remuneration subject to P.A.Y.E., and rents under 'short' leases. Where the income is paid wholly out of income brought into charge to income tax, the payer is entitled to deduct tax at the standard rate in force for the tax year in which the amount payable becomes due (Income Tax Act, 1952, Section 169): Where it is not payable wholly out of income brought into charge to tax, the payer is bound to deduct tax at the standard rate for the tax year in which the payment is actually made (Section 170).

In estimating the total income of a person for tax purposes:

- (a) income chargeable by deduction at the standard rate for any year is deemed to be income of that year; and
- (b) deductions for sums paid under deduction of tax at the standard rate for any year are allowed as deductions for that year

notwithstanding that the sums in question accrue before or after that year (Section 524 (3)). This simple scheme, reminiscent of the general common law rule which the Apportionment Acts largely displaced, obviates troublesome calculations where the rate of tax has changed.

A United Kingdom company paying dividends is entitled to deduct tax at the rate for the year in which the dividend becomes due, i.e. normally when it is declared (Section 184). There is provision for grossing-up dividends where tax is not deducted (Sections 185-186), the object being to prevent evasion of surtax.

(To be concluded.)

LIMITATION OF ACTIONS

by LORD MESTON

THERE is nothing more disturbing than to be sent an account for payment which is several years old. It may be that in all honesty one has forgotten the matter after having paid no attention to the early demands for payment; or it may be the fact that the account has never been sent in before and one has no recollection, or only a dim recollection, of the transaction to which it relates.

Whatever may be the ethics of the matter, the law has acted quite reasonably in setting its face against what may be called 'stale demands', and has imposed varying periods of time within which demands for payment may be made or actions brought to enforce those demands. These time limits, so to speak, are known as 'periods of limitation', and the law on the subject is contained in the Limitation Act, 1939. The principal provisions of that Act may be conveniently summarized as follows:

General

The period of limitation is six years in the case of actions founded on contract or tort. A 'tort' is, of course, a civil wrong as distinct from a breach of contract, as, for example, negligence, nuisance, trespass, conversion or detention.

In the case of actions for damages for negligence, nuisance or breach of duty where the damages claimed by the plaintiff in such circumstances consist of or include *damages in respect of personal injuries* to any person, the period is three years instead of six years.

An action for an account shall not be brought in respect of any matter which arose more than six years before the commencement of the action.

We now pass to a longer period of limitation. An action upon a 'speciality' shall not be brought after the expiration of twelve years from the date on which the cause of action accrued. The term 'speciality' includes a bond or other contract under seal, and a statute and a judgment.

The issue of a writ prevents time running against the plaintiff so long as the writ remains in force.

Action to Recover Land

No action may be brought to recover land after the expiration of twelve years from the cause of action arising. There are certain exceptions in favour of the Crown and certain charitable organizations. No right of action to recover land is

deemed to arise unless the land is in the possession known as 'adverse possession' of some person in whose favour the period of limitation can run. Thus, when under the Limitation Act, 1939, a cause of action is deemed to arise upon a certain date, and on that date there is no person in adverse possession of the property, then such cause of action will not arise until there is someone in possession.

Extension of Period of Limitation in Certain Cases

In some cases the period of limitation is extended by various circumstances, such as the following: in the case of fraud or mistake (e.g. a payment of money due to mistake of fact), the period of limitation shall not begin to run until the plaintiff has discovered the fraud or mistake, as the case may be, or could with reasonable diligence have discovered it.

Then there are certain persons under a disability, namely, infants and persons of unsound mind. If on the date when any right of action accrued for which a period of limitation is prescribed by the 1939 Act (e.g. six years in the case of an action founded on contract) the action may be brought at any time before the expiration of six years from the date when the person ceased to be under a disability or died, whichever event first occurred, notwithstanding that the period of limitation has expired.

From What Date Does Time Begin to Run?

The date from which time begins to run sometimes raises difficult questions. The general principles, however, are reasonably simple. The period of limitation does not necessarily begin to run from the time of the making of a contract or promise, but it runs from the time when the plaintiff might have brought his action. Thus, in the case of actions founded on contract, time runs from the breach of the contract. In the case of the non-payment of an ordinary tradesman's or commercial invoice, the normal six years' period applies, and time begins to run from the delivery of the invoice, unless some express arrangement is made as to payment by a later date in which event time begins to run from that particular date.

In actions founded on 'tort' (e.g. negligence or conversion or detention), time runs in general from the commission of the tort, even though the plaintiff may not be aware of the identity of the person who has committed it. There was a case in which a motor-car was stolen by an unknown person. The car passed through several hands and some seven years later it was discovered in the possession of a person who had bona fide purchased it for value. In an action against that person by the true owner of the car for conversion, it was held that the cause of action accrued when the car was stolen and as that occurred more than six years ago the action was barred by the 1939 Act.

Damage the Gist of the Action

But there are cases where damage is the *gist* of the action. That is to say, the test is not, when was the wrong actually committed? but, when did damage first flow from the doing of that wrong? In such a case the time will run only from the occurrence of the damage, not from the act which caused it. An example of this is where the plaintiff's right of support to his property is interfered with by subsidence, as may well happen in the case of mineral workings. In such a case the plaintiff's right of action arises when the injury to his property actually takes place, not when the act which caused it (e.g. the mineral workings) was done.

Demand When Necessary

In many cases the cause of action is not complete without a demand. For instance, a demand for repayment is a necessary ingredient in a cause of action for money lent. Thus, if money is left with a banker in the ordinary way on current account it is in law money lent to him; that is to say, the banker is regarded as a debtor, and time does not run from the deposit of the money but from a demand made to the banker to repay the money.

Sale on Credit

To decide when the cause of action accrues it may be necessary to consider not only the period of credit but also the latest time within which payment must be made. Thus, where goods were sold at six months' credit, payment to be then made by a bill at two or three months at the purchaser's option, it was held that this was in effect a nine months' credit, and consequently that an action for goods sold and delivered, commenced within six years from the end of the nine months, was brought in time.

Money Lent (by Cash or Cheque)

In the case of a loan of money, where the actual cash (e.g. £ notes) is handed over to the borrower, if no date for repayment is specified, time runs from the date of the loan. But if the money is lent by cheque time begins to run, not from the date when the cheque was given, but from the date when it was cashed by the bank and the borrower actually received the money.

Bills and Notes

If a bill or note be payable one month after sight, the six years are to be calculated from the expiration of a month after presentment to the acceptor, as until then the drawer could not be sued on the bill. Similarly, if the bill or note be payable one month after demand, the period of limitation begins to run from the end of a month after an actual demand for payment – not at the expiration of one month from the date of the bill or note, as it is not a present debt.

As between the endorsee and the drawer of a bill, the statute begins to run against the latter from the date of the bill and not from the time at which he paid it to his endorsee. But where an accommodation acceptor has paid a bill, then as between him and the drawer time runs not from the date of the bill but from the time when it was so paid.

Revival of Debt by Acknowledgment or Part Payment

Suppose that a debt is owing. After, let us say, four years, the debtor writes to the creditor and acknowledges the debt or pays something on account of it. In such an event there is in law a fresh promise to pay made on the date of the acknowledgment or part payment, and accordingly time runs against the creditor for recovery of the debt not from the moment when the debt was incurred but from the date of the acknowledgment or part payment.

Every acknowledgment must be in writing and signed by the person making it (i.e. the debtor). Any acknowledgment or part payment may be made by the agent of the debtor, and must be made to the person or to an agent of the person, whose title or claim is being acknowledged or in respect of whose claim the payment is being made.

Taxation

The question of limitation in regard to taxation is not within the scope of the present article. Thus, the recovery of income tax by the Inland Revenue authorities is a separate matter.

THE GRADUATE ACCOUNTANT IN INDUSTRY

by J. M. S. RISK, B.Com., Ph.D., C.A., F.C.W.A., A.C.I.S., M.B.I.M.
Group Controller of Accounts, The Brush Group Ltd.

I HAVE been asked to submit a few remarks on the opportunities and prospects, the qualifications required, and the type of work of the graduate accountant in industry. This provides a very wide field and as a basis for discussion I would refer you to the appendix which is, I hope, self-explanatory.

Qualifications

The accounting graduate has a choice of entering industry via a public accountant's office or of embarking straightway on an industrial career.

Those who qualify in a public accountant's office as a Chartered, Incorporated or Certified Accountant will be well advised to follow this up immediately by amplifying their knowledge through the examinations of The Institute of Cost and Works Accountants, after which they may then consider whether the nature of their job requires still wider knowledge.

The graduate who plunges straight into industry will need to decide whether the nature of his present and future duties suggest one qualification rather than another. I think the chances are that the majority will find the I.C.W.A. examinations appropriate to their needs, followed by those of either The Chartered Institute of Secretaries or The Association of Certified and Corporate Accountants. Local authority employees will naturally take the examinations of The Institute of Municipal Treasurers and Accountants.

A few graduates may find their vocation in the field of statistics, and for these there is available The Association of Incorporated Statisticians, whose examinations require a definite bent for mathematics. Finally, it would be of value for every accountant, whether in industry or not, to widen his horizon by taking the examinations of the British Institute of Management, nor must one omit to mention those of the Office Management Association.

The truth of the matter is that no one degree or qualification covers the whole range of knowledge which may be needed in industry, so it is as well to follow the Scout's motto and 'Be Prepared'. Accordingly, I see no reason why the graduate in industry should not extend his vocational education by passing first, the examinations of The Institute of Cost and Works Accountants and then taking a combined tuition course covering The Chartered Institute of Secretaries and The Association of Certified and Corporate Accountants. Much work will be involved and the sacrifice of some ephemeral pleasures, but a graduate should already have had some experience in this direction.

Qualifications, though gratifying to the holder,

are not an end in themselves, and many a man has been successful with only one qualification – or even none. Yet I think that one's chances are improved by the acquisition of knowledge in a disciplined manner; the able man will become more competent and the less able man will be helped to do a reasonable job of work.

It has been said that knowledge is the key to power and though action is also needed, it is easier to turn a key in a lock than to bruise one's shoulder trying to break down the door through which one journeys to success.

Skills and Tools

The young accountant will find the figures in the microcosm of the examination paper magnified a thousand times in the accounts of the business enterprise with myriads of figures darting hither and thither but, unlike 'Ernie', it is to be hoped that they are flowing in a controllable pattern. To assist in processing the ever increasing data used in business, a multitude of machines and devices are at hand and the graduate should find out how to use them.

In the first place, of course, it will be found of considerable value to teach oneself shorthand and typewriting – two tools of universal use; and in the words of the popular ditty, I am told that even the Chinese are doing it! (i.e. adopting an alphabet which can be represented on a typewriter keyboard).

A third tool which every accountant must learn to use is the slide-rule. Very little practice brings sufficient facility to make one wonder why it is not explained at school.

While the accountant in public practice may get by with much the same tools as Pacioli might have used, the accountant in industry has to organize his work and that of his staff to best advantage, so he ought to be conversant with the tools of his trade. Can you imagine a mechanical engineer who had never operated a machine tool? Yet, at the present time, many people would think it *infra dig.* for a graduate or qualified accountant to sit down and learn to operate a book-keeping machine; that is, to learn how the work for which he is responsible will be carried out. This is necessary so that he knows how best to use the facilities of the machine, and secondly, how much work he may reasonably expect to be produced in a given time. Otherwise he will find it more difficult to plan the output of his office methodically.

What else can be left? Possibly the most important thing of all: the development of the ability to think logically. Accountancy students do not usually receive formal instruction in logic. To some extent the deficiency may be made good by reading, and by

practice in preparing and writing reports in which recommendations have to be systematically built up. The following stages will be covered:

- (1) statement of the problem (not always an easy matter);
- (2) gathering of facts;
- (3) examination, sifting, collating, tabulation, etc., of facts;
- (4) statement of alternative solutions;
- (5) the argument for and against each solution; conclusions;
- (6) the recommended solution and the reasons therefor;
- (7) the means of putting the solution into effect;
- (8) checking that the action taken has produced the results expected.

A study of the various publications on organization and methods, published by the Office Management Association, the Treasury Organization and Methods Division, and by others, will also help to show how a logical approach may be made to many administrative problems which the graduate accountant will encounter.

Types of Work

There is a very wide range of work available and to some extent this will vary according to the type of organization in which one works. For example, these are the following types of organization, the first two overlapping in many cases:

- (1) manufacture - in a broad sense, including transport and services (whether nationalized or not);
- (2) commerce;
- (3) financial organizations (including Government-sponsored investment companies, finance houses, merchant bankers, insurance companies, building societies, stockbrokers, and possibly banking).

Although most accounting graduates will find themselves doing book-keeping and accounting work, some may be attracted by the opportunities offered of becoming a management trainee in a large company or at a later stage, perhaps, of becoming a representative of a company selling book-keeping machines.

There is also the whole field of secretarial work, whether for limited companies or otherwise, and a few may decide to turn to statistical work.

Duties

The actual duties of the graduate accountant in industry may well appear, initially, to be somewhat humdrum. It should, of course, be recollected that accounting graduates are a relatively new breed in industry and the employer no doubt proceeds warily until he can gauge the ability of the new-comer; for knowledge, though essential, is not the same thing as experience or ability.

Whereas at university the student learns of the latest principles and their application in a general sense, his early duties in industry may well relate to

some activity in a narrow field, where quite possibly the methods in use would cause an organization and methods expert to take to drink! Yet it should be noted that the existing method has usually enabled the job to be done to the satisfaction of the management for many years. So tread warily - new brooms are to be handled with care.

The best course is probably to become so proficient at the immediate task that those in charge realize that the trainee is ready for transfer to another department or to more advanced duties in the same department.

Naturally, it is wise to select an organization which uses modern techniques of management accountancy, for the man in industry who does not become knowledgeable in the practice of budgetary

Appendix

AVENUES OF OPPORTUNITY

1 PUBLIC ACCOUNTANCY

- 11 Public Accountancy - permanently or thence: Industry etc.
Consultancy
Teaching or Research

2 INDUSTRY AND COMMERCE, ETC.

- 21 Local Authorities
- 22 Armed Services
- 23 Civil Service
 - 231 Royal Ordnance Factories
 - 232 Hospital Service
 - 239 Other Government Departments
- 24 Nationalized Industries
 - 241 National Coal Board
 - 242 British Transport Commission
 - 243 Electricity Boards and C.E.A.
 - 244 Gas Boards
 - 245 Atomic Energy Authority
 - 246 British Broadcasting Corporation
 - 249 Others
- 25 Private Enterprise
 - 251 Large groups of companies
 - 252 Very large single companies (over 2,000 employees)
 - 253 Large single companies (under 2,000 employees)
 - 254 Medium-sized companies (under 1,000 employees)
 - 255 Small companies (under 250 employees)
 - 256 Very small companies (under 50 employees)

3 CONSULTANCY

- 31 Accountancy: Budgetary control; Standard costing etc.
- 32 Organization and Methods Work
 - 321 General, including installation of book-keeping machines etc.
 - 322 'Electronics' and integrated data processing
- 33 Work Study: Methods study, work measurement, etc.
- 39 Other Work: Job evaluation; standardization work, etc.

4 TEACHING AND RESEARCH

- 41 Universities and Colleges of Science and Technology
- 42 Schools of Commerce
- 43 Correspondence Schools
- 44 Research Scholarships

control and standard costing imposes on himself a handicap which will increase in severity as the years roll on.

Prospects

Prospects are good. The work of the accountant in industry is developing fast and those who can take advantage of the opportunities will make good progress. Knowledge and hard work should be

sufficient to ensure a reasonable degree of success. For those who aspire to the highest positions the additional qualities of character and personality required are the same as in other walks of life.

At the present time it may not be too much to say that, unlike companies where liability is limited, for the graduate accountant in industry the prospects are unlimited.

Weekly Notes

Integration: The Society's Winding-up

It has been announced that an extraordinary general meeting of members of The Society of Incorporated Accountants has been convened to be held at Incorporated Accountants' Hall, London, at 2.30 p.m. on Friday, November 1st, to pass a special resolution for the voluntary winding-up of the Society and the disposal of its surplus assets in accordance with the schemes of integration which have already been approved by the requisite three-fourths majority.

It is expected that the decisions of the Government of the Republic of Ireland and of the Privy Council of Northern Ireland on the application of the Irish Institute for the amendment of its bye-laws will be known by the end of October. Should the application be approved it is, of course, desirable that the schemes should be brought into effect as soon as possible.

The Society's notice states that the terms of the special resolution are clear and give final effect to the decision of members on integration. The proposed liquidators are Mr James A. Allen, F.S.A.A., one of the Society's auditors, and Mr I. A. F. Craig, O.B.E., B.A., Secretary of the Society. The resolution requires to be passed by a three-fourths majority.

Mr Basil Smallpeice resigns from the Council of the Institute

The resignation of Mr Basil Smallpeice, B.COM., A.C.A., from the Council of The Institute of Chartered Accountants in England and Wales was received with much regret at the Council meeting, held on October 2nd (reported elsewhere in this issue).

Mr Smallpeice, who is managing director of British Overseas Airways Corporation, was elected to the Council in June 1948, being the third non-practising member to be elected and the first Associate ever to serve on the Council. He was a member of the Examination Committee from 1948 until 1956 and also served on the Finance, Parliamentary and Law, and Overseas Relations committees, as well as a number of subcommittees.

Mr Smallpeice was admitted an Associate of the Institute in 1930, in which year he took up an appointment with Hoover Ltd, subsequently becoming accountant and assistant secretary. He joined Doulton & Co Ltd in 1937, where he became secretary and chief accountant, and in 1948 he was appointed director of costs and statistics of the British Transport Commission. He joined B.O.A.C.

as financial comptroller in 1950 and became deputy chief executive in 1954; he was recently appointed managing director of the Corporation.

Well known to our readers as an author and lecturer, Mr Smallpeice has always shown great interest in the profession and for a number of years was a member of the Committee of the London and District Society of Chartered Accountants, of which he was Chairman in 1947-48. He was discussion leader at one of the business sessions of the Seventh International Congress of Accountants held in Amsterdam last month.

New Member of the Council of the Institute

Mr Victor Walton, F.C.A., senior partner in the firm of Victor Walton & Co, Chartered Accountants, of Leeds, was elected a member of the Council of The Institute of Chartered Accountants in England and Wales at the meeting of the Council held on October 2nd (reported elsewhere in this issue).

Mr Walton, who was born in 1900, was articled to his father, the late Alfred Walton of the firm of John Gordon & Co, Chartered Accountants, of Leeds. He passed the Final examination of the Institute with honours and was admitted an Associate in 1922. In that year he commenced to practise in Leeds and he was elected to Fellowship of the Institute five years later. He was one of the first members of the Institute's Taxation and Research Committee and served on the taxation subcommittee. A member of the committee of the Leeds, Bradford and District Society of Chartered Accountants since 1934, Mr Walton served as President of the Society in 1947 and he was chairman of the Society's conference committee which made arrangements for the Institute's autumn meeting held in Harrogate in 1949. He has been keenly interested in the Leeds and District Chartered Accountant Students' Association for many years and was its President in 1934. He is also a member of the Leeds local joint committee dealing with the accountancy profession and the universities.

Since 1935, Mr Walton has been a member of the Council of The Institute of Taxation and he was President of that Institute during the years 1944-47.

Costing for Everyman?

Believing that costing not only measures but also stimulates productivity, the British Productivity Council and The Institute of Cost and Works Ac-

countants have just issued a pamphlet which, they hope, will arouse the interest of both executives and operatives in the subject.¹ The plan of the work is apparent from its eight chapter headings: costing as an aid to productivity; costing for – successively – wages, machines, materials and overheads; budgets and budgetary control; standard costing; and, finally, costing as an aid to planning. This long perspective is virtually covered by one writer, Mr P. E. Randall, A.C.W.A., the final chapter being by Mr C. A. Herring, B.SC.(ECON.), F.C.W.A., M.INST.T. Mr Randall has contrived to produce an excellent narrative without over-simplifying the essentials. Nevertheless, one cannot help thinking that while the pamphlet should serve its purpose more than adequately on the shop floor, the majority of those executives who find its contents news ought not to be executives.

Coal Stocks and Output

There is every prospect that the country will start the coming winter with coal stocks at a record level. At the beginning of 1957 stocks were slightly below those at the corresponding date a year ago, but the first few months of the year saw a very welcome increase in output. Coupled with the fact that industrial production in the early months of the year was relatively steady and the mildness of the winter, this resulted in a rapid increase in stocks from the end of February, whereas in the previous year the lowest point was reached in March. The optimistic outlook regarding coal production was not, however, maintained later in the year and for the first thirty-eight weeks of 1957 production totalled 162.3 million tons compared with 159.3 million tons for the corresponding weeks of 1956.

It is perhaps unfortunate that following the raising of the Bank rate industrial production in the coming winter is not likely to show any marked increase. Stocks of coal on September 21st at nearly 28 million tons are therefore likely to prove more than adequate, apart from the special question of large coals of which there is now a continuing shortage. There is not, therefore, likely to be any strong pressure on the coal industry to expand production, and once again the hopes expressed earlier in the year that the heavy expenditure on modernization and re-equipment were beginning to have a marked effect on output are likely to be falsified.

British Industry and the Free Trade Area

In view of the varying impact of a European free trade area on different industries in this country it was not to be expected that a report prepared by the Association of British Chambers of Commerce, the Federation of British Industries and the National Union of Manufacturers should attempt to express the general opinion of British industry for or against the proposal. Nevertheless, the joint report issued last week is of considerable importance in setting out the

basic requirements of the scheme if it is to prove acceptable to British industry in general.

The three basic requirements set out in the report, namely that a European free trade area must not be incompatible with the maintenance of the existing structure of Imperial preference; that the United Kingdom must not surrender its right to its own tariff policy toward the outside world and that foodstuffs, drink and tobacco must be excluded from the arrangement have been envisaged since the proposal was first put forward. They may, nevertheless, give rise to considerable difficulty when the machinery for the free trade area is being set up.

While some of the safeguards proposed, for example, that companies likely to be badly hit might receive Government assistance to convert their output to new products may be controversial, most of the conditions laid down will probably prove generally acceptable. Provided that these conditions are intended to be subject to negotiation with the other parties concerned and not an irreducible minimum, the report should facilitate the negotiations leading to the establishment of the free trade area. In view of the fact that many members of the organizations responsible for the report must view the European free trade area with some misgiving so far as their own future is concerned, the report displays a much more liberal attitude than might have been expected.

Pressure on the P.M.G.

Progress has been made with the formation of a Bulk Mail Users' Association. It is proposed to form an association and to this end, a draft constitution has been circulated to those interested. The constitution lays down in very broad terms that the Bulk Mail Users' Association should exist to further the interest of bulk mail users so far as postal rates are concerned and to study methods of mailing and distribution. Those responsible for organizing the Association now wish to go forward to pass the necessary formal resolutions, appoint officers and agree on the basis of putting the Association's case before the Postmaster-General.

In the first instance the Association sets out to influence the Postmaster-General. The papers sent out call for a meeting to discuss the Association's constitution and make it quite clear that the only possibility available for reducing the burden of higher postal charges is the straightforward, legal one of reducing weight, quantity, direct delivery and changes in classification. The most that can be done, therefore, is to mobilize opinion to present a case for the Postmaster-General's examination.

It remains to be seen what that case will be, but the most powerful one, if it can be assembled, would be to show that the Post Office will lose more than it gains by raising its charges. Organized pressure on a Government department is on the way to success when it can show that the gain likely to accrue from certain measures is significantly less than had been estimated.

¹ *Costing Matters*. 2s 6d net.

Finance and Commerce

The size of prospective demands for new money, particularly from the oil groups, has depressed already uncertain equity markets. Price falls have been heavy. Government and other fixed interest stocks, however, remain steady.

'Omnibus' Entries

'The reserves, provisions, liabilities and fixed and current assets shall be classified under headings appropriate to the company's business provided that where the amount of any class is not material, it may be included under the same heading as some other class.'

Readers will recognize the extract from the Eighth Schedule of the Companies Act, but many, especially those whose experience is post-Second World War, will not have known the 'omnibus' balance sheet entries that led up to it. It was not unknown under the previous Act for the greater part of a company's assets to be shown in one 'omnibus' item, and the joining of creditors, reserves and bank loans in one figure was quite common.

The present Act still leaves something to directors' discretion 'where the amount of any class is not material', but as one of our readers suggests in reference to the balance sheet of Powell Duffryn Ltd as at March 31st last, this latitude should not be stretched.

The Powell Duffryn consolidation adds up to £35,165,499, of which £25,584,179 is the total of current assets, the greater part of which – and more than half the assets total – is comprised of 'Debtors, stocks and work in progress, £19,652,777'.

'It seems to me,' says our correspondent, 'that such an amalgamation of items begs the question as to which ingredient is or is not material, particularly where the amount is £19,652,777'.

Blakey Conclusions

To conclude our note on the affairs of Blakey's Boot Protectors Ltd, we give the state of the proxies put in for the annual meeting. Out of a total of 1,244 stockholders representing 1,445,832 votes, 571 proxies representing 765,485 votes were received in favour of the present board. Mr Sumption lodged 236 effective proxies representing 226,007 votes in his favour. A decided majority of stockholders have thus shown their confidence in the board's administration.

The circumstances were rather unusual. The opposition had full confidence in the way the business was being run; it was the high rate of retained earnings and the mode of their investment which prompted comment.

At the meeting, Mr Thomas Whitham, the chairman, explained that depreciation provisions were based on historical costs and not on estimated replacement cost at present prices. It was, therefore, necessary to provide the money required to meet replacements and to preserve the purchasing power of stockholders' capital, and to retain out of taxed profits

such sums as appeared necessary for the maintenance and development of the business.

As we said, it would have been better had the directors put the case fully before stockholders in the normal course instead of waiting until a pressure group took action. The episode carries a lesson that directors should take stockholders as fully as possible into the running of a company. We hear much these days about fostering good employee relations; good relationship with stockholders is equally important.

Jubilee Accounts

The older generation will remember the Kent knife-cleaning machines of their youth into which the household cutlery was inserted and polished by the turn of a handle; no stainless steel in those days. George Kent, founded in 1838 and incorporated in 1907, has gone a long way since then.

The jubilee of incorporation has been marked by a special production of the report and accounts, with a history of the business in a style befitting the occasion. A high standard of quality in a company's annual publication, however, is worth maintaining. May the good work continue.

Money Market

There was little change in Treasury bill rate conditions on October 4th. The market syndicate's bid was unchanged at £98 7s and the average rate was £6 12s 13½d per cent. Applications totalled £403,680,000 and this week's offer is £260 million.

POWELL DUFFRYN LIMITED AND ITS SUBSIDIARY COMPANIES RESERVES

	Powell Duffryn Limited £	Consoli- dated £
CAPITAL RESERVES		
Balance at 31st March, 1956	2,900,695	4,765,569
Add:		
Adjustment to Goodwill of Subsidiary Companies and balances arising on consolidation of their Accounts		47,543
Balance at 31st March, 1957	£2,900,695	£4,813,112
REVENUE RESERVES		
Balance at 31st March, 1956	1,457,986	7,267,390
Add:		
Surplus realised on Investments and Property		
Subsidiary Companies: Appropriations per	34,930	141,481
Profit and Loss Account		
Profit and Loss Account: Increases in Carry Forward:		
Powell Duffryn Limited	16,138	16,138
Subsidiary Companies		313,501
Balance at 31st March, 1957	£1,509,054	£8,131,759

NOTES ON CONSOLIDATED ACCOUNTS

1. The Accounts of all Companies included in the Consolidated Profit and Loss Account are made up to the 31st March, 1957, except for fifteen Companies trading abroad, eleven of which are made up to the 31st December, 1956, and four to the 30th September, 1956.
2. The rates of exchange in force at the 31st March, 1957, have been adopted for the translation into sterling of all foreign currencies.
3. Taxation has been charged in the Consolidated Profit and Loss Account after taking credit for £95,000 (1956, £41,000) of relief arising from investment allowances on capital expenditure.
4. There are commitments for future capital expenditure at the 31st March, 1957, amounting to £3,011,000 (1956, £3,300,000).

POWELL DUFFRYN LIMITED AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1957

1956 £	1956 £	1956 £	1956 £	1956 £
12,191	INTEREST ON DEBENTURE STOCK	11,934	PROFITS (LESS LOSSES) ON TRADING	2,475,761
53,568	PROVISION FOR TAXATION	605,814	Less Provision for Depreciation	753,672
236,827	Foreign Taxation	1,869,947		2,036,250
955,491	United Kingdom Profits Tax			178,000
1,245,886	United Kingdom Income Tax on Profits for the year		TRANSFER FROM TAXATION RESERVES	
		1,176,398		
	DIRECTORS' REMUNERATION			
10,755	Fees		DIVIDENDS AND INTEREST (before deducting Income Tax)	200,196
34,255	Salaries and Other Emoluments	10,583	Income from Trade Investments	128,063
14,503	Pensions, including Cost of Commutation	36,733	Income from Other Investments and Interest Receivable	
2,000	Compensation from a Subsidiary for Loss of Office as a Director thereof	7,302	Interim Income Receivable under Section 22 of the Coal Industry Nationalisation Act, 1946, to date of cessation	15,594
				343,853
61,613		54,618		
94,431	PROPORTION OF PROFITS ATTRIBUTABLE TO OUTSIDE SHAREHOLDERS	98,720		
1,414,121		1,341,670		
	• PROPORTION OF PROFITS ATTRIBUTABLE TO THE POWELL DUFFRYN GROUP			
524,502	Powell Duffryn Limited, including Dividends from Subsidiary Companies	509,683		
545,730	Amounts retained in the Accounts of Subsidiary Companies	706,750		
1,070,232		1,216,433		
£2,484,353		£2,558,103		£2,558,103

See Notes on page 11.

* Reproduced on page 423 - Editor.

CONSOLIDATED PROFIT AND LOSS APPROPRIATION ACCOUNT

1956 £	1956 £	1956 £	1956 £	1956 £
298,855	SINKING FUND FOR REDEMPTION OF DEBENTURE STOCK AND TRANSFERS TO GENERAL AND OTHER RESERVES IN THE ACCOUNTS OF SUBSIDIARY COMPANIES	393,249	PROPORTION OF PROFITS ATTRIBUTABLE TO THE POWELL DUFFRYN GROUP	509,683
			Powell Duffryn Limited, including Dividends from Subsidiary Companies	706,750
			Amounts retained in the Accounts of Subsidiary Companies	1,216,433
49,163	DIVIDENDS (less Income Tax) OF POWELL DUFFRYN LIMITED			
166,643	4½ per cent Cumulative Preference Shares—for year to date	49,163		
277,739	Ordinary Shares:	166,643	BALANCE brought forward from 1955/56	407,724
	Interim 6 per cent, paid 26th February, 1957	277,739	Powell Duffryn Limited	1,785,596
493,545	Proposed Final, 10 per cent	493,545	Subsidiary Companies	
792,400		886,794		2,193,320
407,724	BALANCE PER CONSOLIDATED BALANCE SHEET to be carried forward to 1957/58			
1,785,596	Powell Duffryn Limited	2,522,959		
2,193,320	Subsidiary Companies	£3,409,753		
£2,985,720		£2,985,720		£3,409,753

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

A Bouquet for the Institute

SIR, - I am sure that many practising members would like to join with me in expressing appreciation and grateful thanks to the authors of the booklet issued by the Council entitled *Unlawful Acts or Defaults by Clients of Members*.

Our thanks are also due to all who have contributed with such skill to this immensely valuable publication, outstanding, in my opinion, amongst the many other helpful publications emanating from the same source.

Yours faithfully,
A. R. O. SLATER.

London, EC2.

The Cheques Act and Receipts

SIR, - The passing of the Cheques Act, 1957, has raised a problem in my organization as to the necessity for furnishing receipts for accounts paid by customers.

Can a customer legally demand a receipt for a payment made, whether by cheque or by cash:

(a) where the value is less than £2;

(b) where the value is £2 or over?

Yours faithfully,
COST ACCOUNTANT.

SIR, - Following the passing of the Cheques Act a movement - against which I have already protested publicly - appears to be growing up for businesses to give up the issue of receipts for payments made by cheque. I wonder whether any of your readers can tell me what the position will be in regard to maintenance claims, agricultural buildings claims, etc., in which the Revenue insist on having receipted accounts.

Yours faithfully,
R. S. FROST.

Taunton, Somerset.

[A contributed article in next week's issue will include consideration of these points. - Editor.]

'The Long-Form Audit Report'

SIR, - I would like to contribute in a small way, by commenting on the article by Mr Kenneth S. Most, entitled 'The long-form audit report' (September 7th issue). This is a practice that is fairly common in the West Indies, and in most cases is undoubtedly most helpful. There is, however, one potential danger, which is that the auditor might deal in his long-form report with items that, were it not for the presentation of a long-form report, would be dealt with in the statutory report. I have seen an example of this in regard to the value placed on book debts, and in the particular case the managing director removed the long-form report which was not referred to either in the accounts or the statutory report, and merely presented to his fellow directors and shareholders,

the accounts and the statutory report. As a matter of interest, this company shortly afterwards went into creditors' voluntary liquidation.

Yours faithfully,
C. D. JACKSON, A.C.A.
Port of Spain, Trinidad, B.W.I.

'Training for the Profession'

SIR, - I feel Mr Coulson's letter (September 28th issue) calls for a reply because his arguments leave the impression that I am suggesting that training in industry could take the place of training in the profession. Of course it cannot and, as he says, one of the advantages of training in the profession is that it gives the articled clerk the opportunity of moving from business to business and learning something of the accounting methods and business problems with a variety of clients.

The whole object of my letter was to suggest a shift of emphasis in training because over one-third of the profession now work in industry and neither their practical or theoretical training is designed to prepare them for a career in industry. The syllabus of The Institute of Cost and Works Accountants is surely far better designed for this purpose.

I think it is arguable that service in a professional office is the best way of acquiring the objective approach. I have had the good fortune to work with many engineers whose approach to industrial problems seems to me to be just as objective as that of any professionally trained accountant and as is well known the majority of engineers obtain their training within industry.

I think the suggestion that there is much opportunity for obtaining executive experience during an articled clerk's training can be discounted. In any case a man is not normally ready for executive experience at this age. It is also questionable whether the traditional view that an accountant interested in an industrial career really benefits from two years in the profession after qualifying is true. The longer a man stays in the profession, the more senior would he expect his appointment when he enters industry. This in itself can be a grave disadvantage. A young man entering industry direct from his articles will expect to start on a fairly low rung and he thus has a much better opportunity of learning the detailed clerical procedures and gaining an insight into the minds of the clerical staff he will later have to control which will stand him in good stead in the future when he attains a position of responsibility.

However, these points are largely a matter of opinion. What matters is that the Institute should be doing its utmost to provide the best possible training for the large proportion of its members who decide to take up an industrial career. The accountant in

industry can do such a lot to help management in the battle to reduce costs and increase productivity, surely matters of real and urgent national importance. I firmly believe that the whole problem of training should be reviewed by the Council.

Yours faithfully,

London, SW1.

J. N. STEPHENS.

Goodwill of Accountancy Practice

SIR, - I have read 'Job Buyer's' reply in your issue of August 24th, to my letter which you published on August 10th, with some interest, but it appears we have almost diametrically opposite viewpoints.

However, could I take up a few more lines to state that, after reading 'Job Buyer's' remarks, it seems to me that:

- (a) Each practice must be valued on its own merits, irrespective of whether or not the practitioner devotes any of his time elsewhere. If he cares to do so, that is his own affair.

Annual running costs of £650 on fees of £2,300 (i.e. overheads of about 28 per cent) must surely be due either to 'short staff' or their low remuneration.

- (b) For a chartered accountant, with the initiative and, presumably, a certain degree of personality to run a practice, only to be able to command a salary of about £1,000 per annum as an employee casts rather a sad reflection on the 'market' value of chartered accountants.

- (c) Even accepting 'Job Buyer's' arguments at their face value, it results in the goodwill (£4,000) being calculated at over six years purchase of the 'extra' remuneration (£650 per annum).

Thus, assuming interest at, say 5 per cent, and with income tax at the present rates, the practitioner has to work for about fifteen years merely to clear off the amount paid. Surely a high price for a certain measure of independence of action.

- (d) No job is ever saleable 'in its own right', but only after approval of the transfer by a third party, i.e. the client.

Should not the pseudonym 'Job Buyer' have read 'Job Seller'?

Yours faithfully,

RETIRING F.C.A.

Stock Valuation

SIR, - I wonder whether any of your readers could help me with their own experience of a problem in connection with stock valuation which is becoming quite burdensome?

My company manufacture a range of standard products which runs to several thousands of lines. These products do not vary in specification from year to year, but of course each particular product differs from all the others either in shape or size, and certainly in cost of manufacture. In recent years, and particularly during the course of the last twelve months, costs of production have increased at ever-shortening intervals, so that the cost of manufacture has had to be altered equally frequently, and the problem of ensuring that the actual valuation put

upon the full range of lines in the stock sheets becomes enormous.

Manufacturing processes through which each article has to pass are many, running to a total of over twelve in the majority of cases, and although it is quite possible to set a standard cost for each line, when some change in manufacturing cost takes place such as labour, the labour content of each of the twelve different processes has to be altered to arrive at a new standard cost. The work involved to alter all standard costs for the thousands of lines we carry as stated above is an enormous problem, especially in a year such as this when we have had two advances in wages in this industry within nine months, and a series of advances in raw materials.

One further problem is that stocks of individual lines in some cases move slowly, and might consist of production dating back over a period of several years. If we are to apply the correct cost figure to each portion of the stock of each line made in any particular period, then the valuation of stock for accounts purposes is further complicated. Have any of your readers any suggestions to make for lightening the work without any serious loss of accuracy?

Yours faithfully,

A.C.A.

Valuation of Shares: Private Limited Company

SIR, - I should appreciate other readers' views on the valuation of shares in a private limited company, acceptable for both estate duty purposes and purchase price of a deceased member's shares. The business concerned is light engineering with four directors, all full-time working and controlling who constitute the only members. (Equal salary basis - no dividends.)

The deceased member's shares must be offered to the remaining shareholders in the first place. Already accepted bases would be helpful.

Yours faithfully,

LESALX.

Introductory Courses for Articled Clerks

SIR, - It was suggested at the Oxford Summer Course that an intensive four to eight weeks' course would be the best approach of the newly-articled clerk to his future career.

On the threshold of the profession he might well be apprehensive, if not enthusiastic, and the consequent understanding of his work right from the start would increase both its value to him and his usefulness to the firm.

Doubt having been expressed as to the feasibility of such courses, I am pleased to state that our County Commercial College at Wednesbury is now offering to discuss its provision with the chartered accountants of the Black Country, a number of whose articled clerks already attend our revision courses for the Intermediate and Final chartered examinations.

Yours faithfully,

Wednesbury, Staffs. E. J. COCKSON-JONES.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, October 2nd, 1957, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. H. Lawson, C.B.E., President, in the chair; Mr W. L. Barrows, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., J. Blakey, W. G. Campbell, P. F. Carpenter, D. A. Clarke, E. C. Corton, C. Croxton-Smith, W. G. Densem, W. W. Fea, Sir Harold Gillett, M.C., Messrs J. Godfrey, P. F. Granger, D. V. House, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs P. D. Irons, R. B. Leech, M.B.E., T.D., R. McNeil, W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., J. E. Talbot, E. D. Taylor, G. L. C. Touche, A. D. Walker, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Presentation of Prizes

In presenting the following prizes to the under-mentioned candidates, who were able to attend the meeting of the Council, the President said:

Gentlemen,

It is, I think, a very pleasant custom that you who have won prizes and awards in the examinations should come here to receive them from me in the presence of the Council.

On this occasion, six Certificates of Merit have been awarded in the Final examination and no less than five of these have gone to students from the Leeds and Bradford area – two from Leeds, two from Bradford, and one from Halifax. This is a remarkable achievement. It follows upon the victory of the rival county of Lancashire in the November 1956 examination when the first two places went to Manchester. We Southerners will have to look to our laurels.

The awards in the Intermediate examination were more evenly distributed over the country and I am pleased to see that they include once more a lady who has taken a high place in the order of merit, but unfortunately she is not here today.

You who have won your awards in the Intermediate examination are, of course, only half-way down the road and there is little that I can say to you today except to offer you my sincerest congratulations and to wish you every possible luck in the Final examination. Your success in the Intermediate examination should encourage you to face the Final examination with the utmost confidence and I hope that some of you will then again appear in the prize list.

Those of you who have succeeded in the Final examination will now be starting out on your professional careers full of confidence. There are many things which I should like to say to you at this time, but if you are anything like I was at your age, your minds will not, at this moment, be in a particularly receptive state and if I were to make a long statement the prospect of your remembering what I said would not be very good. I have decided, therefore, to say just two things quite shortly and simply.

Firstly, please be receptive of new ideas. Remember that we are not a static profession. Our job is to provide the service which our clients need. Those needs tend to change and never more so than at the present time. Now that you are finished with examinations try, if you will, to spend some time in studying and finding ways of meeting these new requirements.

Secondly, I want to tell you a very short story and you will forgive me if you have heard it before. It will enable me to summarize in one sentence a great deal of what I want to say to you. The story is of the Duke of Wellington. After the Battle of Waterloo he was going over the events of the day with his friends. He referred to the help which he had received from this and that commander and to the timely assistance which had been provided by the Germans. Then he said 'it was well that I was there' – a curious, rather egotistical remark you may feel but, nevertheless, how true. I should like to think that when you come to look back on the careers to which you are now looking forward, each one of you will be able to say to himself, 'it was well for the accountancy profession that I was a Chartered Accountant'.

Final

Second Certificate of Merit, the Walter Knox Scholarship and the Frederick Whinney Prize

J. M. L. Jaeger (E. D. Taylor), Leeds.

Fourth Certificate of Merit

R. S. Ransom (W. H. Mason), London.

William Quilter Prize (shared with one other)

M. P. Kerrigan (A. H. Whalley), Leeds.

Plender Prize for the General Financial Knowledge, Cost and Management Accounting paper

G. A. Brazel (J. O. Elphick), London.

Intermediate

First Certificate of Merit, the Institute Prize and the Plender Prize for the Auditing paper

L. Baker (V. Sklar), London.

Second Certificate of Merit (equal), *the Stephens Prize and the Plender Prize for the Taxation and Cost Accounting paper*

B. L. Worth (F. R. Coad), London.

Fourth Certificate of Merit and the Tom Walton Prize

E. D. Quick (H. F. Shapland), Minehead.

Fifth Certificate of Merit and the Flight-Lieutenant Dudley Hewitt, D.F.C., Prize

A. C. Webb (B. Keohame), Newport, Mon.

Sixth Certificate of Merit

T. Knowles (J. C. M. Williams), Swansea.

Seventh Certificate of Merit (equal)

W. E. Gooch (A. S. H. Dicker), Great Yarmouth.

Ninth Certificate of Merit

S. W. Treadgold (H. E. Williams), Oxford.

Twelfth Certificate of Merit (equal)

P. A. S. De-Zaporowicz (O. E. Ames), London.

Twelfth Certificate of Merit (equal) *and the Plender Prize for Book-keeping and Accounts (Limited Companies) paper*

C. R. Godwin (R. R. Elliott), Ilford.

Seventeenth Certificate of Merit, the Frederick Whinney Prize and the Plender Prize for the Book-keeping and Accounts (Partnership) paper

C. R. Mason (L. A. D. Winter), Truro.

Eighteenth Certificate of Merit

G. Pringle (J. C. Smethers), London.

Twentieth Certificate of Merit

N. Butterworth (L. H. Clark), London.

Twenty-first Certificate of Merit (equal)

G. Robinson (K. McN. Black), Matlock.

Twenty-third Certificate of Merit

D. T. G. Evans (C. H. March), Cardiff.

Plender Prize for the General Commercial Knowledge paper

J. N. Clarke (H. M. Jones), London.

Welcome to New Members

The President welcomed Mr J. Godfrey and Mr J. E. Talbot, who were attending for the first time as members of the Council. Both Mr Godfrey and Mr Talbot briefly replied.

Resignation from Council

The Council received with much regret the resignation of Mr Basil Smallpeice, B.COM., A.C.A., from his membership of the Council. Mr Smallpeice had been a member of the Council since 1948.

Election to the Council

Mr Victor Walton, F.C.A., Leeds, was elected as a member of the Council to fill the vacancy caused by the resignation of Mr Charles William Boyce, C.B.E., F.C.A.

Taxation and Research Committee

The Council appointed Mr Adriaan Evan Spicer, B.A., F.C.A., to serve on the Taxation and Research Committee for the year to September 30th, 1958, in place of Mr John Godfrey, M.A., F.C.A., following Mr Godfrey's appointment to membership of the Council.

Re-admission

One application for re-admission to membership was acceded to.

Reduction in Period of Service under Articles

Two applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (b) for exemption from the Intermediate examination was acceded to.

Final Examination

Nine applications under bye-law 86 from articled clerks for permission to sit an earlier Final examination were acceded to.

Articled Clerks Engaging in Other Business

Three applications under bye-law 57 from articled clerks to engage during their service under articles in other business for the sole purpose and to the limited extent specified in their applications were acceded to.

Articled Clerks in Industrial Organizations

Eight applications under bye-law 58 (c) from articled clerks to spend a period not exceeding six months in an industrial or commercial organization during service under articles were acceded to.

Cheques Act, 1957

The Council authorized the printing and issue to all members of the Institute of a statement on the Cheques Act, 1957. Distribution took place on October 4th, 1957. [The statement was reproduced in our last issue. - Ed.]

Accounting Principles

On the report of the Parliamentary and Law Committee, following consideration of a memorandum prepared by the Taxation and Research Committee, the Council authorized the printing and issue to all members of the Institute of a recommendation under the title *Events Occurring after the Balance Sheet Date* as No. XVII in the series of recommendations on accounting principles. The distribution will take place on October 16th, 1957. [The recommendation will be reproduced in our next issue. - Ed.]

Unlawful Acts or Defaults by Clients of Members

In August 1957 the Council issued to all members of the Institute a booklet entitled *Unlawful Acts or Defaults by Clients of Members*. This was marked 'Not for publication'. Members have now had time to consider this important booklet, dealing primarily with questions of professional conduct in certain difficult circumstances that arise from time to time. The Council has therefore decided to withdraw the embargo on publication. [The booklet is reproduced elsewhere in this issue. - Ed.]

**Seventh International Congress of Accountants:
Amsterdam, September 9th to 13th, 1957**

The Chairman of the Overseas Relations Committee reported on the Seventh International Congress of Accountants held in Amsterdam from September 9th to 13th, 1957, which was attended by about 180 members of the Institute. The Council decided that the following resolution be conveyed to the President of the Congress:

'The Council of The Institute of Chartered Accountants in England and Wales congratulates the sponsoring bodies on the great success of the Seventh International Congress of Accountants and wishes to express its warm appreciation of the hospitality shown to the delegates and visitors from the Institute. In particular the Council wishes to thank the President of the Congress, Mr J. Kraayenhof, the Vice-President, Professor A. M. van Rietschoten, and the Secretary, Mr A. L. de Bruyne.'

Certificates of Practice

It was resolved:

(1) That certificates of practice be issued to the following twelve associates who have commenced to practise:

Bingham, Thomas Percy; 1952, A.C.A.; 52 Conifer Gardens, London, SW16.

Coombs, Gordon Alan; 1949, A.C.A.; (Ware, Ward & Co), 21 Cathedral Yard, Exeter; (for other towns see Ware, Ward & Co).

Elia, Gabriel; 1957, A.C.A.; 1 Coleridge Road, Finsbury Park, London, N4.

Frost, Harvey Couch; 1954, A.C.A.; (Mathias & Co), National Provincial Bank Chambers, Duke Street, Tavistock, Devon.

Geller, Seymour; 1957, A.C.A.; (Fenton, Geller, Berman & Co), 77 South Audley Street, London, W1.

Gillespie, Kenneth Josling, B.A.; 1957, A.C.A.; (Gillespie Brothers & Co), 43 Chandos Place, London, WC2, and at Newcastle upon Tyne.

Harrison, William Charles; 1957, A.C.A.; (J. Stanway Johnson & Co), 7 Tithebarn Street, Liverpool, 2.

Jennings, Donald William; 1950, A.C.A.; (Ware, Ward & Co), 7 Unity Street, College Green, Bristol, 1; (for other towns see Ware, Ward & Co).

Kitrick, Sidney; 1947, A.C.A.; 9-11 Cromwell Road, London, SW7.

Perrin, John Hornsby; 1957, A.C.A.; (Hornsby Perrin & Co), 30 Bedfordwell Road, Eastbourne.

Raw, John Whitfield; 1955, A.C.A.; (Hyland, Riches & Raw), 7 Southampton Place, Holborn, London, WC1.
Waterman, Harold; 1955, A.C.A.; 28 Orchard Avenue, Finchley, London, N3.

Elections to Fellowship

Fifteen applications from associates for election to fellowship under clause 6 of the supplemental Charter (bye-law 31) were acceded to.

A list of those who complete their fellowship before October 15th will appear in *The Accountant* of October 19th.

Admission as Associates

(a) Eleven applications for admission as associates under clause 5 of the supplemental Charter (bye-law 31) were acceded to.

(b) One application for admission as an associate under clause 9 of the supplemental Charter (bye-law 36) was not acceded to.

A list of those who complete their membership before October 15th will appear in *The Accountant* of October 19th.

Resignation

The Council accepted the resignation from membership of the Institute of:

Mr Edward Cecil Gregson, A.C.A., Hove.

Registration of Articles

The Secretary reported the registration of articles of clerkship as follows:

	1957	1956
September	162	185
January to September	931	1,006

Changes of Name

The Secretary reported that the following changes of name have been made in the Institute records:

Kenneth Brooke Nassim to Kenneth Ely Brooke Masson.
Hans Wassermann to Harold Waterman.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Henry Francis Baker, F.C.A., London.
,, Richard James Bettison, A.C.A., Kuching, Sarawak.
,, Norman Berkeley Bullows, A.C.A., Bristol.
,, Ernest George Frederick Cartwright, F.C.A., Horsham, Sussex.
,, Thomas Greenwood, F.C.A., Limsfield, Surrey.
,, George Medwell Johnson, F.C.A., Sunderland.
,, Harold Clive Lloyd-Jones, B.A.(COM.), A.C.A., London.
,, Geoffrey Hugh Latimer Woodley, F.C.A., Birmingham.
,, Wilfrid Wright, M.C., A.C.A., London.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on September 4th, 1957.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Ernest Linton, A.C.A. (a) was on May 10th, 1957, at Bow Street Magistrates Court convicted as liquidator of a limited company on a charge of failing to send to the Registrar of Companies a statement with respect to the proceedings in and position of the liquidation of the said company for the period ended November 30th, 1956, contrary to Section 342 of the Companies' Act, 1948; (b) had been guilty of acts or

defaults discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3), of the supplemental Royal Charter in that he failed to reply to two letters addressed to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against John Ernest Linton, A.C.A., had been proved under both headings and the Committee ordered that John Ernest Linton, A.C.A., of 2 Calderstones Avenue, Liverpool, 18, be excluded from membership of the Institute.

TAXATION AND RESEARCH COMMITTEE

The ninety-second meeting of the Taxation and Research Committee was held at the Institute on Thursday, September 19th, 1957, at 2 p.m.

Present: Mr G. P. Morgan-Jones (in the chair); Messrs R. D. R. Bateman, M.B.E., K. A. Buxton, J. B. L. Clark, C.B.E., D. A. Clarke, J. Clayton, R. A. Chermiside, W. G. Densem, A. R. English, G. G. G. Goult, S. C. Hand, G. N. Hunter, F. M. Kellett, S. Kitchen, E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., L. Pells, C. J. Peyton, A. H. Proud, J. D. Reekie, A. G. Thomas, L. W. Underwood, F. J. Weeks, E. F. G. Whinney, and E. K. Wright, with the Secretary.

Standing Sub-Committees

Reports from the following Standing Sub-Committees were received:

General Advisory Sub-Committee.
Management Accounting Sub-Committee.
Taxation Sub-Committee.
Planning Sub-Committee.

Ad hoc Sub-Committees

Reports were received from three special sub-committees.

Membership

The following appointments to membership of the

Committee for the year commencing October 1st, 1957, were reported:

Nominated by the Council: Messrs T. Fleming Birch, F.C.A., L. H. Clark, F.C.A., H. O. H. Coulson, F.C.A., S. M. Duncan, F.C.A., A. R. English, A.C.A., W. S. Hayes, A.C.A., G. P. Morgan-Jones, M.A., F.C.A., L. Pells, M.A., F.C.A., and D. W. Robertson, F.C.A.

Nominated by District Societies' Committees: **Birmingham:** Messrs S. Kitchen, F.C.A., and D. E. T. Tanfield, F.C.A. **Bristol:** Messrs R. A. Chermiside, F.C.A., and F. J. Weeks, A.C.A. **East Anglia:** Messrs F. J. Eves, F.C.A., and G. G. G. Goult, F.C.A. **Hull:** Messrs F. S. Mowforth, F.C.A., and G. W. Knight, A.C.A. **Leeds:** Messrs G. N. Hunter, F.C.A., and A. Rayner, B.Sc.(ECON.), A.C.A. **Leicester:** Messrs J. D. Reekie, M.A., A.C.A., and J. W. Walkden, F.C.A. **Liverpool:** Messrs E. N. Macdonald, D.F.C., F.C.A., and C. J. Peyton, A.C.A. **London:** Messrs C. W. Aston, A.C.A., J. A. B. Keeling, D.F.C., M.A., A.C.A., R. P. Matthews, B.COM., F.C.A., and E. K. Wright, M.A., F.C.A. **Manchester:** Messrs W. R. Carter, M.A., F.C.A., and C. F. Millard, B.A.(COM.), A.C.A. **Northern:** Messrs F. M. Kellett, F.C.A., and H. Kirton, A.C.A. **Nottingham:** Messrs K. A. Buxton, F.C.A., and L. W. Underwood,

F.C.A. *Sheffield*: Messrs S. C. Hand, F.C.A., and A. G. Thomas, F.C.A. *South Eastern*: Messrs C. R. P. Goodwin, F.C.A., and G. H. Yarnell, F.C.A. *South Wales*: Messrs R. P. Brown, A.C.A., and E. S. Foden, F.C.A.

The following members were co-opted for the year commencing October 1st, 1957:

Messrs R. D. R. Bateman, M.B.E., A.C.A., J. Cartner, A.C.A., J. B. L. Clark, C.B.E., A.C.A., S. Dixon, M.A., A.C.A., N. B. Hart, O.B.E., T.D., M.A., LL.B., F.C.A., J. Latham, C.B.E., A.C.A., A. H. Proud, A.C.A., and H. Eden Smith, A.C.A.

Standing Sub-Committees

The following members were appointed to Standing Sub-Committees for the year commencing October 1st, 1957:

General Advisory Sub-Committee: The Chairman and Vice-Chairman of Taxation and Research Committee (*ex officio*). Messrs R. D. R. Bateman, T. Fleming Birch, R. P. Brown, K. A. Buxton, H. O. H. Coulson, S. M. Duncan, F. J. Eves, G. N. Hunter, J. A. B. Keeling, R. P. Matthews, F. S. Mowforth, D. W. Robertson, A. G. Thomas and G. H. Yarnell.

Management Accounting Sub-Committee: The Chairman and Vice-Chairman of Taxation and Research Committee (*ex officio*). Messrs J. Cartner, H. O. H. Coulson, J. B. L.

Clark, S. Dixon, C. R. P. Goodwin, G. G. G. Goult, W. S. Hayes, H. Kirton, J. Latham, C. J. Peyton, A. Rayner, J. D. Reekie, H. Eden Smith, D. E. T. Tanfield, L. W. Underwood and F. J. Weeks. *Recommended for co-option*: Messrs K. W. Bevan and J. B. Prentice.

Taxation Sub-Committee: The Chairman and Vice-Chairman of Taxation and Research Committee (*ex officio*). Messrs C. W. Aston, W. R. Carter, R. A. Chermiside, L. H. Clark, A. R. English, E. S. Foden, G. G. G. Goult, S. C. Hand, N. B. Hart, F. M. Kellett, S. Kitchen, E. N. Macdonald, G. P. Morgan-Jones, L. Pells, A. H. Proud, J. W. Walkden and E. K. Wright. *Recommended for co-option*: Messrs H. D. Bessemer, J. E. Talbot and G. H. Vieler.

Chairman and Vice-Chairman

Mr S. Dixon, M.A., A.C.A., and Mr E. N. Macdonald, D.F.C., F.C.A., were unanimously appointed Chairman and Vice-Chairman respectively of the Taxation and Research Committee for the year commencing October 1st, 1957.

Future Meetings

The next meeting of the Committee was fixed for Thursday, October 17th, 1957, at 2 p.m. A meeting will also be held on Thursday, December 19th, 1957, at 2 p.m.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Law and Accounts of Executors, Administrators and Trustees; by B. G. Vickery, F.C.A.: thirteenth edition. 1956. (Donnington Press, 22s 6d.)
Montgomery's Auditing; by R. H. Montgomery: 8th edition by N. J. Lenhart and P. L. Defiesse. New York. 1957. (Ronald Press. Presented.)
The Principles of Auditing; by F. R. M. de Paula, F.C.A.: twelfth edition by F. C. de Paula, F.C.A. 1957. (Pitman, 30s.)

The Rent Act, 1957; by S. W. Magnus and R. A. Bennett. 1957. (Butterworth, 32s 6d.)
Securities for Bankers' Advances; by J. M. Holden: second edition. 1957. (Pitman, 35s.)
Treasury Control: the co-ordination of financial and economic policy . . .; by S. H. Beer: second edition. Oxford. 1957. (Clarendon Press, 15s.)

UNLAWFUL ACTS OR DEFAULTS BY CLIENTS OF MEMBERS

A Statement by the Council of The Institute of Chartered Accountants in England and Wales for the Guidance of Members

A practising member of the Institute, when acting as auditor, accountant, or otherwise in a professional capacity, has access to much information of a private nature and it is essential that he should treat such information as being available to him for the purpose only of carrying out the professional duties for which he has been engaged. Members are well aware that to divulge information about a client's affairs would normally be a breach of professional confidence, which might have the most serious consequences.

Occasions sometimes arise, however, where a practising member, in carrying out his professional duties, acquires knowledge indicating that a client may have been guilty of some unlawful act or default. This statement is issued by the Council for the guidance of any practising member of the Institute who finds himself in that position. It involves not only questions of professional conduct but also important legal considerations and therefore the statement has been settled in consultation with counsel.

GENERAL LEGAL CONSIDERATIONS

(1) Counsel advise that paragraphs (2) to (7) below set out the position in England and Wales in relation

to any legal duty which may rest upon a member and it is against this general background that the particular matters dealt with in this statement must be considered.

(2) A member would himself be guilty of a criminal offence:

- (a) If he were to advise a client to commit any criminal offence, whether or not the client accepts his advice; or
- (b) If he were to help a client in the planning or execution of any criminal offence.

(3) Criminal offences may be classified as (a) indictable offences, that is to say, those which admit of trial by jury, comprising felonies (including treasons) and misdemeanours; and (b) petty offences, that is to say, those which are tried summarily by justices of the peace sitting without a jury. Examples are given in Appendix I indicating the principal felonies of which a member is likely to become aware in the course of his professional duties. The distinction between felonies and misdemeanours is important because in law the position of a member in relation to felony is materially different from that in relation to misdemeanour.

(4) If a client has committed a felony (as distinct from a misdemeanour):

(a) A member who intentionally helps him to escape conviction commits the criminal offence of being an accessory after the fact. There is no similar offence in connection with misdemeanours.

(b) A member who knowingly fails to report the felony to the police commits an offence if his concealment of the crime is for the member's own advantage, and, possibly, even if it is not. This is the offence of misprision of felony. There is no similar offence in connection with misdemeanours.

(5) Prosecutions for the offence of misprision of felony are extremely rare. Counsel do not know of any case in which proceedings have been taken against a person whose knowledge of the felony has been acquired through his access to confidential information in a professional capacity. Where a member acquires knowledge of the offence of felony he should bring the facts to the notice of his client if the offence has been committed by an employee of the client, but if the felony has been committed by the client the member would be well advised to consult a solicitor on the question of reporting the facts to the police.

(6) In connection with any criminal offence, whether a felony, a misdemeanour or a petty offence, a member would commit the offence of conspiracy to obstruct the course of public justice if he were to agree with the client to conceal or destroy evidence or to mislead the police by statements which he knew to be untrue.

(7) The remainder of this statement relates only to misdemeanours and the rules stated in paragraph (4) do not apply to them. A person who has knowledge of a misdemeanour has no public duty to act as informer. It would, therefore, be a breach of the confidence which exists by reason of the professional relationship between a practising member and his client if the member were to inform against his client in respect of a misdemeanour knowledge of which was acquired in the course of the member's professional duties.

TAXATION FRAUDS

General Considerations

(8) It is a misdemeanour and not a felony to defraud the Inland Revenue. Moreover, the offences to which the Perjury Act, 1911, relates are all misdemeanours and not felonies; this point is of importance because the Inland Revenue make use of the provisions of the Perjury Act, 1911, as well as the penalty provisions of the Income Tax Acts. Section 5 (b) of the Perjury Act, 1911, provides that if a person knowingly and wilfully makes a statement false in a material particular and the statement is made in an account, return or other document which he is authorized or required to make by any public general Act of Parliament he shall be guilty of a misdemeanour. This covers the making of a false return of income for tax purposes. Section 5 (c) makes punishable as a misdemeanour false statements made in any oral declaration or oral answer which a person is required to make by, under, or in pursuance of any such Act.

(9) The following paragraphs are intended to relate primarily to circumstances in which a member is satisfied that a client has knowingly defrauded the Inland Revenue. They do not deal with circumstances in which the member considers that there have been

mistakes resulting from carelessness or ignorance, but not wilful fraud; such circumstances will not normally give rise to difficulty, because where there has been a genuine mistake a client is not likely to object to appropriate steps being taken to rectify the position. If, however, the client does object and the matter is material, the member should treat it as being wilful fraud.

(10) When a member is satisfied that a client has defrauded the Inland Revenue this does not justify the member in acting as informer, because the offence is not a felony (see paragraph (8)) and therefore to inform would constitute a breach of professional confidence (see paragraph (7)). The member cannot, however, merely ignore the situation and continue to act for the client. Various circumstances are considered below.

Past Accounts later Found to be Defective

(11) A member's duty of confidence to his client can be qualified by the client's own conduct. If a client has withheld information from or otherwise deceived a member, with the result that accounts prepared or reported upon by him were defective and the member has submitted or is aware that the client has submitted those accounts to the Inland Revenue, it would be improper for the member to allow the Inland Revenue to continue to rely upon the accounts. He should advise his client to make a complete disclosure to the Inland Revenue. The member should not himself make such a disclosure without first obtaining the client's permission.

(12) Normally the member should advise his client to make such a disclosure without delay. If, however, he considers that the disclosure can properly be delayed until the lodgment of the accounts for the current year, he should so advise his client and obtain the client's agreement to the making and showing of an adjustment in those accounts. He might, for example, take that course where trivial defects in past accounts come to his knowledge. For his own protection, in the event of the matter coming to the notice of the Inland Revenue before the current accounts are submitted, the member should ensure that his records of his advice to his client are such as to rebut any possible charge of conspiracy with or of aiding or abetting his client.

(13) It would not be proper to leave the matter to be dealt with by an adjustment in the current accounts if the consequent delay in disclosure would be likely to be prejudicial to the Inland Revenue, for example, by enabling the client to place his person or funds outside the jurisdiction of the Courts.

(14) If the client refuses to act in accordance with the member's advice (to make an immediate disclosure, or to make and show an adjustment in the current accounts, as the case may be) the member should inform his client that he can no longer act for him and that it will be necessary for the member to inform the Inland Revenue that since he prepared or reported upon the accounts concerned he has acquired information which indicates that those accounts cannot be relied upon and that he has ceased to act for the client. The member should then so inform the Inland Revenue, but he is under no duty to furnish details of the reasons why the accounts are defective and it would be improper for him to do so without first obtaining the client's consent.

Accounts Currently being Prepared or Audited

(15) A member may acquire knowledge of matters which do not affect past accounts but would result in the Inland Revenue being defrauded if not properly dealt with in accounts which the member is currently engaged in preparing or auditing. If the client fails to provide such information as the member may require or refuses to agree to the accounts being drawn up in the manner which the member considers necessary, then the member clearly has a professional obligation to make such reservations in his report on the accounts as will indicate the respects in which they are defective. If the member is preparing the accounts, for example, for a sole trader (as distinct from auditing accounts for which others are responsible, as in the case of a limited company), no question arises of a refusal by the client to agree to the accounts being drawn up in the appropriate manner; the member will compile the accounts as he thinks fit and make his report thereon.

(16) If the client dispenses with the member's services before he has completed his work and reported on the accounts, no further duty rests on the member and he has no responsibility towards the Inland Revenue and no authority to give any information. It would be improper for him so to do.

(17) Where, however, the member's services are not dispensed with his position in relation to the Inland Revenue, after he has completed his professional duties as accountant or auditor, is as follows:

(a) The member should not, without the client's authority, send the accounts to the Inland Revenue.

(b) If the member is not requested to undertake the taxation work (that is to say, to act on the client's behalf in dealing with the Inland Revenue) he has no responsibility towards the Inland Revenue and no authority to give any information. In the event of his receiving any inquiry from the Inland Revenue he should do no more than state that he is not dealing with taxation matters and that all inquiries should be addressed to the client. If the Inland Revenue inquiry indicates that accounts bearing the member's name have been submitted he should state that he cannot add to his report thereon. The position is the same whether or not the member has acted for the client on taxation matters in previous years.

(c) On the other hand, if the client requests the member to undertake the taxation work he should make it clear to the client that he can do so only on the basis of full disclosure of all relevant information. If the client will not agree, the member should state that he cannot act for him in taxation matters and in that case the position regarding any inquiries the member may receive from the Inland Revenue is the same as in (b) above.

(18) Where the member has not been requested, or has declined, to act in taxation matters (items (b) and (c) of the preceding paragraph) he could lawfully continue in the future to act as accountant or auditor, making appropriate reservations when necessary in his reports on the accounts, but not taking any part in taxation matters. In the circumstances envisaged, however, it seems likely that either the member or the client would not wish to continue the professional association between them.

Past Accounts of a New Client

(19) A member who is engaged in preparing or auditing accounts for a new client may acquire knowledge indicating that accounts submitted to the Inland Revenue for previous years were defective. In these circumstances:

(a) The member should advise his client to make a complete disclosure to the Inland Revenue.

(b) The member has no responsibility for the past accounts but if the nature of the defects in them is such as to affect the correctness of the accounts which the member is engaged in preparing or auditing he should inform his client that an appropriate adjustment will need to be made and shown separately in those accounts; and if the client refuses to agree to such an adjustment the member should make appropriate reservations in his report on the accounts. Paragraphs (16) to (18) would then apply.

(c) If the defects in the past accounts do not affect the accounts which the member is engaged in preparing or auditing, and the client declines to make complete disclosure to the Inland Revenue, the member has no duty in the matter and he should not, without his client's consent, send any communication to the Inland Revenue indicating that the past accounts cannot be relied upon. He has no responsibility for those accounts. In such circumstances the member could lawfully continue to act as accountant or auditor for the client. The member may, however, prefer to terminate the association.

Taxation Frauds not Involving Accounts

(20) Paragraphs (11) to (19) above relate to fraud on the Inland Revenue through the medium of defective accounts. A member may, however, acquire knowledge indicating that a client has defrauded the Inland Revenue by means which do not affect the client's accounts, for example, the submission of incorrect returns of private income. The member should advise his client to make a complete disclosure to the Inland Revenue. If the client refuses to do so, the member's position will depend on the circumstances:

(a) If the fraud relates to taxation matters on which the member has not acted for the client (for example, omission of private income where the member has dealt only with the tax computations of business profits and not with the client's tax returns) the member has no further duty and it would be improper for him to make any disclosure to the Inland Revenue. He could lawfully continue (subject to paragraph (2)) to act for the client as hitherto. He may, however, prefer to terminate the association.

(b) If the fraud relates to taxation matters on which the member has acted for the client, then the member should inform the client that he can no longer act for him and that it will be necessary for the member to inform the Inland Revenue that he must dissociate himself from the returns (or other information involved) for the years in question and that he has ceased to act for the client on taxation matters. The member should then so inform the Inland Revenue, but he is under no duty to give further details and it would be improper for him to do so without first obtaining the consent of the client.

General Professional Duty to Give Guidance

(21) The advice given in preceding paragraphs is in no way intended to assist a member to shield a client from the consequences of having defrauded the Inland Revenue. A member should regard himself as having a professional obligation to urge upon a client, in the client's own interests, the importance of making a full disclosure and authorizing the member to proceed, where necessary, with 'back duty' negotiations.

(22) Circumstances vary, and it is not always that a client fully appreciates the seriousness of his offence or the consequences that may ensue; in particular he may not realize that if there is no disclosure and the Inland Revenue later discovers the fraud there is considerably greater likelihood of a criminal prosecution (with the possibility of imprisonment on conviction) than where a suitable monetary settlement is offered on the client's own disclosure.

(23) The client may also not realize that if a member is obliged to cease to act for him and notifies the Inland Revenue to that effect in the manner advised in preceding paragraphs (after which the member would have no further dealings with the Inland Revenue in relation to the client) this may well result in the Inland Revenue commencing inquiries which lead to discovery of the fraud.

(24) All these are matters which the member should regard it as his professional duty to impress upon the client. If, nevertheless, his advice is not accepted, it is important that the member's subsequent conduct should, from both the legal and professional standpoints, be correct and such as to safeguard his own position and reputation. It is to this position that the whole of this statement is directed.

Statutory Provisions relating to Disclosure of Information

(25) The Income Tax Acts give to the General and the Special Commissioners and to the Commissioners of Inland Revenue certain powers to obtain information and there are some aspects of these powers which members need to consider carefully if they are to avoid committing a breach of their professional duty of confidence through taking an erroneous view of their legal obligations. The points which are of general importance are considered below.

Summons to appear before General or Special Commissioners

(26) It is competent to the General Commissioners, under Section 59 of the Income Tax Act, 1952, to summon a member to appear before them in connection with an assessment made or to be made on a client or former client. The section must, however, be read in conjunction with Section 58 of the Act, so that where a member is summoned in such circumstances:

(a) The member is a 'person confidentially employed in the affairs of a person to be charged' and accordingly the General Commissioners do not have the power to examine the member on oath, otherwise than as indicated in (b) below. In the case of a former client the fact that the confidential relationship has ceased does not remove the protection given under the sections in so far as any questions relate to the period when the confidential relationship existed.

(b) The member may object to and refuse to answer any question; but the substance of any oral answers given by him will be taken down in

writing and after he has had the liberty of amending any such answers he may be required to verify them on oath.

(27) The position is similar where a member is summoned to appear before the Special Commissioners acting in place of the General Commissioners or where a member is summoned to appear before the General Commissioners acting on behalf of the Special Commissioners (see subsections (2) and (3) of Section 8 of the Income Tax Act, 1952).

Production of records

(28) Under Section 31 of the Income Tax Act, 1952, the Commissioners of Inland Revenue have power to serve a notice requiring the person on whom the notice is served to produce accounts and to make available for inspection 'all such books, accounts and documents in his possession or power as may be specified or described in the notice, being books, accounts and documents which contain information as to the transactions of the trade, profession or vocation'. The power given by that section relates only to 'a person who has been duly required to deliver a statement of the profits or gains arising to him from any trade, profession or vocation' and it is exercisable only where the person has failed to deliver a statement or where the Commissioners of Inland Revenue are not satisfied with the statement delivered. The section thus gives power to the Commissioners of Inland Revenue to serve a notice on a client but not on a member acting for him.

(29) If a notice under Section 31 is served on a client and requires production of documents which are in the possession of a member, the member's proper course will depend upon whether the documents are his property or that of the client.¹

(a) In so far as the documents in the member's possession are the property of the client, the member should either send them to the client or send them direct to the Inland Revenue if he has the client's written authority to do so.

(b) In so far as the documents are the property of the member, he should inform the client that the Commissioners of Inland Revenue have no power to demand their production and that accordingly they will not be made available to the Inland Revenue except at the request of the client and to the extent, if any, that the member considers appropriate.

(30) The General Commissioners and (by reason of the application of subsections (2) and (3) of Section 8 of the Income Tax Act, 1952) the Special Commissioners have power under Section 54 of the Income Tax Act, 1952, to issue a precept where notice of appeal against an assessment has been given. The power extends to the issue of a precept requiring the appellant to make available for inspection of the Commissioners or 'of the Surveyor or any officer authorized by the Commissioners of Inland Revenue, all such books, accounts or documents in his possession or power as may be specified or described in the precept, being books, accounts or documents which, in the opinion of the Commissioners issuing the precept, contain or may contain certain information relating to the subject-matter of the appeal'. The power is to issue a precept to the appellant; there is no power to issue a precept

¹ See the Council statement on Ownership of Records, reproduced in Appendix II.

to a member acting for a client. The considerations referred to in the preceding paragraph are applicable also in relation to such a precept.

(31) As a matter of practical convenience it is not unusual for Inspectors of Taxes to ask a client, or the member acting for him, for information which the Inspector may have no statutory right to demand but which could be called for by the General or Special Commissioners or by the Commissioners of Inland Revenue under the statutory provisions referred to above. A client need not comply with an Inspector's request where it exceeds the rights which could be exercised by the relevant Commissioners or where the member considers that the appropriate course is to await the exercise of their powers by the relevant Commissioners. The considerations referred to in paragraph (29) are applicable also in relation to any such requests from Inspectors.

(32) A member ought not to assist in any way in bringing the affairs of a client under the scrutiny of the Enquiry Branch of the Inland Revenue without first obtaining the consent of the client. This point can be of considerable importance where a member has taken over the practice of another accountant and he may receive a request from the Enquiry Branch for his co-operation by way of providing lists of clients and/or working papers relating thereto, the object being to enable the Enquiry Branch to make a general review to decide whether there are any clients whose affairs appear to need further investigation. The professional relationship between a member and his client is such as to debar a member from co-operating in this way with the Enquiry Branch and his proper course in such circumstances is so to inform the Enquiry Branch.

(33) A member's working papers are his own property and not that of his client (see the statement regarding ownership of records reproduced in Appendix II) and accordingly the working papers do not fall within any of the powers given to the various Commissioners under the sections referred to above. Normally, a request by an Inspector or by the Enquiry Branch for production of working papers would be regarded by a member as being a reflection upon either his competence or his integrity and dealt with accordingly, in the knowledge that there is no statutory power under which the request can be enforced. If, however, there are special circumstances in which a member considers that he should accede to such a request, then he must bear in mind that in negotiations with the Inland Revenue he is acting as agent for his client and accordingly he should explain the position to the client and obtain his consent before acceding to the request.

(34) The powers of the Commissioners of Inland Revenue under Section 31 and those of the General and the Special Commissioners under Section 54 (paragraphs (28) and (30) above) do not extend to the production of records where the point at issue is not the taxpayer's liability but a desire to ascertain information about a third party. It follows, therefore, that requests by Inspectors for details concerning third parties (for example, names and addresses of persons with whom the client has had dealings in the ordinary course of business) cannot be enforced by the Commissioners and do not appear to be competent except where there is specific authority as in Sections 27 to 29 of the Income Tax Act, 1952, relating to salaries, wages, commission and interest, or Section 20 of the

Finance Act, 1956, relating to payments for services rendered and in respect of copyright.

MISDEMEANOURS OTHER THAN TAXATION FRAUDS

(35) A practising member acting as accountant, or auditor, or otherwise in a professional capacity, may acquire knowledge indicating that his client has been guilty of a misdemeanour. The principal misdemeanours of which a member may become aware are: fraudulent conversion by trustees and others entrusted with the ownership of property for special purposes; frauds by directors and officers of companies; falsification of accounts; a bankrupt's failure to keep proper books of account; share pushing; fraudulent trading; obtaining property by false pretences; offences against control regulations governing prices, quotas, and licences; offences in respect of purchase tax; the payment or receipt of bribes. A practising member acting in a professional capacity has no responsibility to ascertain whether a client is conducting his affairs in an unlawful manner. If, however, in the course of his duties he becomes aware that a client has committed offences of the kind mentioned, the first point for him to consider is that he must not do anything to assist the client to commit any criminal offence (see paragraph (2)).

(36) The second point which the member would have to consider is whether the possible consequences of the offence are such as to prevent the accounts which he is engaged in preparing or auditing from giving a true and fair view and therefore call for appropriate reservations in his report on the accounts. The member's decision on this point will depend upon the materiality of the offence and the effect on the financial position of heavy pecuniary penalties if these could be imposed.

(37) The third point which the member would have to consider is whether he is prepared to continue to act for the client. This is a matter on which the member must make his own decision. He may not wish to continue to be associated in any way with the client; but on the other hand he could (subject to paragraph (2)) lawfully continue if he wished to do so, for example, if he took the view that it is desirable for him to continue, making reservations in his reports where necessary, rather than give the client the opportunity of using the services of a less scrupulous person.

SPECIAL POINTS IN CONNECTION WITH COMPANIES

(38) In considering the advice given in this statement it is important to bear in mind that in the case of a company governed by the Companies Act, 1948, the auditor's 'client' is the company and not the directors. Where, however, the directors have so acted as to result in the company defrauding the Inland Revenue or committing other offences, references in this statement to the 'client' should be regarded in the first instance as referring to the directors of the company; for example, where it is necessary for the member to advise a client to make a full disclosure to the Inland Revenue the advice should be given to the directors.

Reservations in the Auditor's Report

(39) If, however, it becomes necessary for the member to make reservations in his report on the accounts, the reservations should be in such terms as will indicate

clearly the respects in which he has been unable to satisfy himself on the matters on which he is required to express an opinion under the Ninth Schedule to the Companies Act, 1948, even though the result will be to disclose, to the shareholders and others who may see the accounts, the fact that offences have been committed.

(40) Members are advised not to attempt to avoid this awkward responsibility by refusing to report upon the accounts and tendering their resignation from appointment as auditor. The Companies Act, 1948, contains no provision under which an auditor is entitled to resign. The abandonment by him of his duties during his period of office would constitute a breach of contract on his part; and even if the directors were prepared to accept his resignation it would be inconsistent with his duty to the shareholders. The member's proper course is to report upon the accounts. If he wishes to do so he can then inform the company of his unwillingness to be reappointed at the annual general meeting; but if he prefers to continue in office and make appropriate reservations in his report year by year, there is in law or professional propriety no reason why he should not accept reappointment.

Removal of the Auditor

(41) The distinction between the directors and the shareholders will sometimes have little or no relevance, either because the directors hold a controlling interest or because all the shareholders are directors. Where in these circumstances the directors fail to comply with the auditor's advice they are likely to wish to prevent the auditor from completing his audit and making a report containing reservations. They could achieve this by calling an annual general meeting at which the sole business would be the removal of the auditor, no accounts being placed before the meeting. If this procedure is followed the auditor may wish to make to the company the written representations which he is authorized to make under Section 160 of the Companies Act, 1948. If he has been acting for the company in relation to taxation matters and he receives any inquiries from the Inland Revenue he should confine his reply to a statement that he has been removed from office at an annual general meeting called specially for that purpose and that the inquiries should accordingly be addressed to the company.

Past Accounts

(42) In relation to past accounts on which the auditor has reported and now finds to be defective, the procedure relating to the Inland Revenue as set out in paragraphs (11) to (14) should be followed, whether it is the directors or the directors and the shareholders who refuse to comply with the auditor's advice and whether or not the auditor is removed from office by means of an annual general meeting specially called for that purpose.

(43) In relation to past accounts on which the auditor has reported, he would also have to consider the position of the shareholders and of the third parties other than the Inland Revenue:

(a) *Shareholders.* If the auditor considers it necessary that the shareholders should be informed of the falsity of the past accounts and considers that this cannot properly be done by adjustment in the next accounts, he should request the directors to issue a suitable statement to the shareholders

and if they do not do so to his satisfaction the auditor should, so far as practicable, himself notify the shareholders.

(b) *Third parties.* Although the auditor has no contractual duty of care to third parties in connection with his report on the accounts of a company, he ought not to allow anyone to continue to rely upon accounts on which he has reported, but now finds to be false, if there is any possibility of the third party acting to his detriment through reliance on the false accounts. An auditor might be held to be guilty of fraud (though the point is not covered by any authority) if he knew that the accounts had been submitted to a third party as an inducement to the third party to act thereon and he failed to inform the third party on discovering the falsity of the accounts before the third party had acted to his detriment. Whatever may be the law on this point, however, an auditor would be fully justified in informing such third parties and he would not be so doing be guilty of any breach of duty to his client.

(44) Where the shareholders or third parties are numerous and it is not practicable or possible for the auditor to communicate with them direct, or where there is great urgency, it may be that the exceptional step of making some public announcement is the only course open to him. In this connection it may be noted that the giving of public notice has a specific statutory sanction in the case of statements included in a prospectus (see Section 43 (3) (b) of the Companies Act, 1948, under which an auditor or reporting accountant can relieve himself of liability if he proves that after delivery of a copy of the prospectus for registration and before allotment thereunder he, on becoming aware of the untrue statement, withdrew his consent in writing and gave reasonable public notice of the withdrawal and of the reason therefor).

Companies in Liquidation

(45) Although the appointment of an auditor of a company is made by the shareholders in general meeting, his appointment is by the company as a legal entity and his duty of confidence is to the company as distinct from the individual shareholders. If the company goes into liquidation the company's rights remain vested in the company as an entity and it is therefore still the company to which the auditor has a duty of confidence. The liquidator is the person through whom the company's rights are exercised, enforced or defended and it follows therefore that there can be no breach of confidence on the part of an auditor in giving to the liquidator information to which the company itself is entitled.

(46) The auditor of a company which is in liquidation may be approached by the police for assistance in inquiries which may lead to a director or other individual being prosecuted for misdemeanour. A member who is approached in this way need not give to the police any information obtained in the course of his professional duties and he should not do so unless he has the permission of the liquidator (the liquidator being the person who could exercise the right of the company to release the auditor from his duty of confidence)¹. Such a release should not normally be sought

¹ A liquidator who is in doubt whether he should give such a release may apply to the Court by summons for the Court's direction in the matter.

by the member. His appropriate course is to make available to the liquidator all relevant information, leaving with the liquidator the responsibility of deciding whether under Section 334 of the Companies Act, 1948, the liquidator has a duty to make a report to the Director of Public Prosecutions. If such a report is made by the liquidator, then the auditor is, by sub-section (5), one of the persons having a statutory duty to give assistance to the Director of Public Prosecutions, so that in these circumstances his duty of confidence is overridden by the statutory provisions.

Companies under Investigation

(47) Under Section 167 of the Companies Act, 1948, the auditor is one of the persons who has a statutory duty to produce books and documents and to give assistance to an inspector appointed by the Board of Trade. Where the Director of Public Prosecutions has instituted proceedings on a reference made to him by the Board of Trade, the auditor is bound under Section 169 to give the Director all the assistance in connection with the prosecution which he is reasonably able to give. In these circumstances the auditor's duty of confidence is overridden by the statutory provisions.

SPECIAL POINTS IN CONNECTION WITH SOLE TRADERS AND PARTNERSHIPS

(48) For sole traders and partnerships a practising member may have to work from incomplete records and within limits laid down by his client. Such clients are not subject to statutory requirements similar to those relating to the accounts and audit of companies incorporated under the Companies Acts. Such a company is required by statute to keep proper books of account and the auditor has a statutory duty to report whether in his opinion this has been done; moreover, such a company is required to have its accounts audited and it cannot limit the duties and powers of the auditor or the responsibility he undertakes for satisfying himself that the accounts show a true and fair view. As such statutory requirements are not present in the case of sole traders and partnerships it is important that anyone who sees the accounts should be made aware, by the member's report, of the significance of the association of his name with the accounts. In this connection the Council wishes to draw attention to its pamphlet of notes dealing with *Reports on Accounts of Sole Traders and Partnerships*, issued to all members in May 1955 (reproduced in Appendix III).

(49) Where a member is acting for a client in taxation matters he may receive from the Inland Revenue questions designed to ascertain whether all receipts have been properly accounted for, or whether disallowable expenditure is included in amounts charged in the accounts, or whether stock has been valued on proper and consistent principles. A member should not undertake responsibility for replies to such questions unless he is satisfied from his examination of the books and records that all relevant information is available to him. Where he is not so satisfied his proper course is to obtain answers from his client and pass them on as such to the Inland Revenue; in doing so he would, of course, not pass on information which he does not believe to be correct or which he knows to be incorrect.

(50) In the event of a member discovering that past accounts which he has prepared or audited were false or misleading through his having been deceived by his client, the procedure he should follow in relation to the Inland Revenue has been indicated in paragraphs (11) to (14). With regard to third parties other than the Inland Revenue the member should act, where necessary, on the basis of the advice given in paragraph (43) (b).

MEMBER HAVING SUSPICION ONLY

(51) If a member has reason to suspect, but has no actual knowledge, that a client has committed some offence within the scope of the matters on which the member acts for him, then the member should make such inquiries as he thinks are likely to confirm or remove his suspicion. If it is confirmed the case would then become one of actual knowledge and the member's conduct should be in accordance with the advice contained in this statement. If on the other hand his suspicion is removed then no further point arises. If he finds no confirmation but his suspicion is still not removed, he may prefer no longer to act for the client, but he can lawfully continue to act if he so desires.

MEMBER'S RELATIONSHIP WITH A SUCCESSOR

(52) It is the duty of any member of the Institute, before accepting nomination for appointment as auditor or professional accountant for a company, partnership or private individual, to communicate with the previous auditor or professional accountant. In this connection attention is drawn to the Council's statement of June 6th, 1951 (reproduced in Appendix IV). In that statement the Council made it clear that it is essential for a member who is proposed for appointment, whether as auditor or as professional accountant, to have an opportunity of knowing all of the reasons for the change and this requirement can only be fulfilled by direct communication with the holder of the existing appointment.

(53) Where a member resigns his appointment or indicates to his client that he will not accept reappointment, or where the client terminates the appointment, the question arises whether the member is entitled (against the wishes of, or without reference to, the client) to inform his prospective successor of the reasons for the change where they relate to fraud on the Inland Revenue or other unlawful acts or defaults. Members are advised as follows:

- (a) The initiative in the matter of communication rests with the prospective successor; the retiring member should not volunteer information in the absence of any communication.
- (b) When a member receives a communication from a prospective successor the member should, subject to (c) and (d) below, inform the prospective successor of at least the general nature of the reason for the change; and to the extent that it seems necessary in order to put the prospective successor adequately on his guard he should be informed of the facts constituting that reason. The prospective successor may then properly accept the appointment if he wishes to do so, in which case the advice given in this statement would then be applicable to him.
- (c) If the discussion of a client's affairs with a pro-

spective successor has been expressly authorized by the client then the member would commit no breach of contract by discussing them with the prospective successor and if the member were sued for defamation he would have the defence of qualified privilege, that is to say, he would not be liable to pay damages for defamatory statements, even though untrue, if they were made without malice. Where the discussion of a client's affairs with a prospective successor has not been authorized by the client, then if the member gives any information to the prospective successor he would do so at his own risk; the risk would be the possibility of having to pay damages for defamation, but only if the statements made to the prospective successor were both defamatory and untrue, or the possibility of having to pay damages (which might be only nominal) for breach of contract in making an unauthorized disclosure. In assessing the risk a member would need to consider how sure he is of the facts and whether the client would be likely to expose himself to the publicity involved in suing on either ground.

- (d) Where a member has decided not to continue to act for a client because he has unconfirmed suspicion but no actual knowledge that the client has defrauded the Inland Revenue or been guilty of some other unlawful act or default, no general rule can be laid down as to whether and if so in what detail he should communicate his suspicion to a prospective successor who communicates with him. It must rest with the individual member in the particular circumstances of the case to determine what he considers to be a proper course. Where, however, there has been failure or refusal by the client to supply the member with information required by him for the performance of his duties he should in any event so inform a prospective successor who communicates with him.

PROSECUTION OF A CLIENT OR FORMER CLIENT

(54) It follows from paragraph (7) that it would be a breach of the professional duty of confidence if a member were, except under legal compulsion, to assist the Inland Revenue, the police or other authority by giving, without the client's consent, information in relation to any inquiries leading towards a prosecution of a client (or former client) otherwise than for treason or felony. A member should not volunteer any information and if requested to give information he should decline to do so unless the person requesting the information satisfies the member that he has a legal right to demand it. The existence of such a right would be exceptional. The member would therefore be wise to inform the person making the request that he wishes to know the precise statutory authority under which the right is claimed. Unless it is then clear to the member that there is good authority he should inform the person making the request that he will consider the matter and consult his solicitor and that meanwhile he is not in a position to discuss his client's affairs. Examples of such authority are Sections 167, 169 and 334 (5) of the Companies Act, 1948, referred to in paragraphs (46) and (47) above.

(55) A member should not appear in Court as a

witness for the Crown, in a case against a client or former client, unless he is served with subpoena or other lawful summons so to do, in which case he must, of course, answer truthfully any questions that the Court allows to be put to him even though this involves disclosure of facts of which he obtained knowledge in his confidential professional capacity. Moreover, he must not refuse to produce in Court any documents in his ownership or possession which the Court may direct him to produce. If the persons in charge of the prosecution have indicated that they will call upon the member to produce certain documents in Court, the member would be wise to have the documents with him but the power to order this production in Court rests with the Court.

(56) A member would be wise to keep in close touch with his solicitor on the legal aspects of his position in relation to a prosecution or possible prosecution of a client or former client.

Appendix I FELONIES

The following are the principal felonies which members may encounter in the course of their professional duties:

Larceny

The statutory definition of this offence in Section 1 of the Larceny Act, 1916, is in these terms:

'A person steals who, without the consent of the owner, fraudulently and without a claim of right made in good faith, takes and carries away anything capable of being stolen with intent, at the time of such taking, permanently to deprive the owner thereof.'

'Provided that a person may be guilty of stealing any such thing notwithstanding that he has lawful possession thereof, if being a bailee or part owner thereof, he fraudulently converts the same to his own use or the use of any person other than the owner.'

The expression 'owner' is defined in the same section as including any part owner, or person having possession or control of, or a special property in, anything capable of being stolen.

The expression 'bailee' is not defined. It includes persons to whom things are delivered with the intention that they shall be returned to the person making the delivery or to some other person appointed by him to receive it.

Embezzlement

The statutory definition of this offence is contained in Section 33 of the Larceny Act, 1916. The principal part of the definition is in these terms:

'Every person who, being a clerk or servant or person employed in the capacity of a clerk or servant steals any chattel, money or valuable security belonging to or in the possession or power of his master or employer . . . shall be guilty of felony . . .'

Receiving Stolen Goods

The statutory definition of this offence is contained in Section 33 of the Larceny Act, 1916. The principal part of the definition is in these terms:

'Every person who receives any property knowing the same to have been stolen or obtained in any way whatsoever under circumstances which amount to felony or misdemeanour, shall be guilty of an offence of the like degree. . . .'

Forgery

The statutory definition of forgery in Section 1 of the Forgery Act, 1913, is in these terms:

'... forgery is the making of a false document in order that it may be used as genuine, and in the case of the

seals and dies mentioned in this Act the counterfeiting of a seal or die. . . .

This Act makes a felony the forging of wills, valuable securities, powers of attorney to transfer shares, policies of insurance, charter-parties, bank notes and certain other documents. Other Acts such as the Forgery Act, 1861, make the forgeries of other documents felonies.

Arson

Offences which constitute arson are defined in the Malicious Damage Act, 1861. They include the offence of setting fire to any house, warehouse, office or shop with intent thereby to injure or defraud any person.

Appendix II

OWNERSHIP OF RECORDS

Statement authorized by the Council
for publication

In *The Accountant*, October 17th, 1953

(1) The following opinion has been given by counsel (September 1953) on the question whether an accountant has the right to retain various types of records.

(2) The opinion applies whether the accountant is acting as an accountant or as auditor (whether under a private arrangement or under the Companies Act, 1948) or as receiver.

(3) The opinion is given on the basis that the contract between the accountant and his client is silent upon the matters in question. The accountant's rights could, of course, be altered expressly or by necessary implication in any such contract and to some extent they depend upon the facts and circumstances of each particular case.

Working Papers

(4) An accountant's working papers are his own property and he is entitled to retain them. His right to retain his working papers is not altered by the state of his client's records. The expression 'working papers' is used here to mean any document that the accountant or his staff may prepare in order to help him carry out the work which he is engaged to do; for example, draft profit and loss accounts and draft balance sheets, schedules prepared from incomplete records in order to enable such draft accounts to be prepared, memoranda and draft reports. These documents are clearly prepared for the accountant's own purposes and a client can have no claim to them.

(5) The above opinion is in accordance with the decision of the Court of Appeal in *Chantrey Martin & Co v. Martin* ([1953] 3 W.L.R. 459), where the Court held that the following documents were the property of the firm of accountants who acted as auditors of a company: working papers and schedules relating to the audit, draft accounts of the company, the accountants' office copy of the final typed accounts of the company, notes and calculations relating to these draft accounts made by a partner of the firm of accountants, and the draft tax computation prepared by an employee of the firm of accountants.

Correspondence with Clients

(6) Letters received by the accountant from his client are the accountant's property and may be retained by him. So may the accountant's copies of his letters to his client. Clearly, when the accountant writes to his client he is not writing on his client's behalf or anyone's behalf but his own. Equally clearly, the accountant's copies of such letters are made solely for his own purposes (*In re. Wheatcroft* (6 Ch.D. 97)).

Communications with Third Parties

(7) In *Chantrey Martin & Co v. Martin* the Court of Appeal held that correspondence between the accountants and the Inland Revenue in regard to the company's accounts and tax computations thereon (both the copies of letters sent and the originals of letters received) were the property of the client. This decision was on the basis that the

accountants had been acting as agents for the client for the purpose of settling with the Inland Revenue the client's tax liability; and accordingly the Court followed the principle expressed by Lord Justice Mackinnon in *Leicestershire County Council v. Michael Faraday & Partners Ltd* ([1941] 2 K.B. 216) that if an agent brings into existence certain documents whilst in the employment of his principal, they are the principal's documents and the principal can claim that the agent should hand them over.

(8) Having regard to the basis on which the Court of Appeal reached its decision regarding correspondence with the Inland Revenue, it is considered that the Courts would hold that communications with third parties and copies of communications by the accountant to third parties are the property of the accountant where the relationship is that of client and professional man and not, as in the case of communications with the Inland Revenue, that of principal and agent. It is considered, for example, that certificates of bank balances, certificates of the custody of securities, statements confirming or otherwise the balance of an account between a third party and the client, and other documents which the accountants have obtained for their own use in carrying out their duties in a professional capacity would be held to be the property of the accountants, notwithstanding that they have been brought into existence in connection with work done for the client.

Compliance with Clients' Requests

(9) Where there is any doubt as to the legal ownership of communications with third parties, it would generally be wise for the accountant, whilst keeping copies for his own protection, to supply the client with any document the client may require (unless the accountant desires the doubtful distinction of giving his name to a leading case).

Appendix III

REPORTS ON ACCOUNTS OF SOLE TRADERS AND PARTNERSHIPS

Council statement issued to all members in May 1955

(1) Practising members of the Institute have clients, such as sole traders and partnerships, who are not subject to statutory requirements relating to the preparation and audit of accounts. There is considerable diversity of practice among members in regard to the manner in which they associate their names with accounts they prepare or audit for such clients. Some members issue accounts in folders bearing their name and qualification, but without giving any indication of the capacity in which they have acted or the nature of the duties undertaken. Other members give an indication by means of a statement on the face of the accounts or by a separate report to the client.

(2) The work which a member does is dependent upon the terms of his appointment by the client who may, on the ground of expense or otherwise, have limited the scope of the work to be done; it is also dependent upon the adequacy of the records kept by the client. There is a great diversity of circumstances and therefore uniformity of practice is neither possible nor desirable.

(3) Such diversity provides scope for misunderstanding as to the significance of the association of the member's name with the accounts and any serious misunderstanding may damage the interests of the client or the professional reputation of the member. Accordingly the Council considers it desirable to issue this statement for the guidance of members.

(4) It is important that a client (including every partner in a partnership) should understand the degree of responsibility which the member accepts in relation to accounts or similar financial statements. Moreover the accounts will normally be submitted, either by the client or on his behalf by the member, to the Inland Revenue and may be made available by the client to other third parties. It is desirable that anyone who sees the accounts should be aware of the nature of the responsibility which the member has undertaken towards his client.

(5) The Council is therefore of the opinion that when a member allows his name to appear on, or be otherwise associated with, a balance sheet and profit and loss account, or similar financial statements, he should give a clear indication of the significance of the association of his name with the accounts. This indication may be given by means of a statement on the face of the accounts or by including thereon a reference to a separate report to the client.

(6) The choice of method and the terms of the member's statement or report to the client are for him to determine in the circumstances relevant to each client. In reaching a decision the essential matters for the member to consider are:

- (a) The capacity in which he has acted.
- (b) Whether the records appear to be reliable and adequate in relation to the nature of the business.
- (c) Whether he has been able to obtain necessary information and satisfactory explanations.
- (d) Whether the effect of the client's instructions is to impose material limitations on the work to be undertaken; in particular whether the instructions involve the omission of work which the member would need to do in order to form an opinion as to whether the accounts show a true and fair view.

The Member's Statement or Report

(7) Where the member has been appointed as auditor, he should state that *he has audited the accounts and also state whether in his opinion they present a true and fair view subject to any reservations he may consider necessary.*

(8) In the great majority of cases the member will not have been appointed as auditor, although he may often carry out considerable auditing work in preparing the accounts. For such clients he should state that *he has prepared the accounts and should then make such observations as will ensure that the association of his name with the accounts does not imply that they can be regarded as more reliable than the circumstances warrant.* The following examples indicate how this general principle can be applied in three broad types of circumstance:

- (a) If the member is able to do so, having carried out sufficient auditing work to his satisfaction, he could state that he has prepared the accounts and in his opinion they present a true and fair view, subject to any reservations he may make. Such an opinion should not be expressed if the reservations are so extensive as to vitiate the opinion.
- (b) If the client's instructions involve the omission of work which the member would need to do in order to form an opinion as to whether the accounts show a true and fair view but the records are prima facie satisfactory, he could appropriately state that he has prepared the accounts from the records and other information supplied by the proprietor but without verification thereof (or without verification of specified matters).
- (c) If, however, the records are materially inadequate or otherwise unsatisfactory, the member should state that he has prepared the accounts from records and other information supplied by the proprietor and should then specify the matters in respect of which he has been unable to satisfy himself, making clear the significance thereof on the reliability of the accounts.
- (9) Where the member finds it necessary to make lengthy reservations it will normally be found convenient to do this by means of a separate report to the client with a reference thereto on the face of the accounts indicating that they are to be read in conjunction with that report. Where the member is able to make a short statement it will normally be more convenient and appropriate for this to appear on the face of the accounts.
- (10) If the accounts of a sole trader do not themselves sufficiently indicate that they are confined to dealing with the position and results of a particular business carried on by that person, the member's statement or report should contain such an indication.

Appendix IV

CHANGES IN APPOINTMENT AS AUDITOR OR PROFESSIONAL ACCOUNTANT

Council statement of June 6th, 1951

It is the duty of any member of the Institute before accepting nomination for appointment as auditor or professional accountant to a company, partnership or private individual, to communicate with the previous auditor or professional accountant.

The Council indicated in its statement of April 1937,¹ that such communication should be made with a view to ascertaining the circumstances in which a change of auditor was proposed. Some members appear to have assumed that if the person proposed to be appointed believes himself to be aware of the circumstances in which the change is proposed, then he is relieved from the duty of communicating; the Council therefore wishes to make it clear that the duty to communicate exists in every case. It is essential that the member who is proposed for appointment, whether as auditor or as professional accountant, shall have an opportunity of knowing all the reasons for the change and this requirement can only be fulfilled by direct communication with the holder of the existing appointment.

Apart from any question of professional courtesy it is important that the legitimate interests of the public and the independence of the existing auditor or professional accountant should be safeguarded and that a communication should take place even though the change is a matter wholly within the discretion of the appointor. The duty to communicate is not confined to cases where the previous appointment was held by a member of the Institute.

Compliance with the duty to communicate will not necessarily preclude the Disciplinary Committee from considering any complaint which may be made under clause 21 (3) of the supplemental Royal Charter.

Where a member is invited to undertake special professional work for a company, partnership or individual, such work being in addition to that already being carried out by the client's auditor or professional accountant and where no question of replacement arises, it is normally desirable, as a matter of professional courtesy, for the member invited to undertake the special work to notify the client's auditor or professional accountant unless the client advances satisfactory reasons for the member not so doing.

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¹ Replaced by the present statement.

CHEQUES ACT, 1957 AND RELATED MATTERS

Statement of the Council of The Institute of Chartered Accountants of Scotland

In our last issue we reproduced the statements issued by The Committee of London Clearing Bankers and the Council of The Institute of Chartered Accountants in England and Wales dealing with the changes in endorsement procedure under the Cheques Act, 1957, which come into force next Thursday. We now reproduce a similar statement which has been issued by the Council of The Institute of Chartered Accountants of Scotland for the guidance of both practising and non-practising members of that Institute.

Members of the Institute have no doubt been considering the position in relation to (a) the coming into force on October 17th, 1957, of the Cheques Act, 1957, and (b) the growing practice of creditors not issuing receipts for payments made to them by cheque. It is hoped that the following notes, prepared by a special committee set up by the Council, and adopted by the Council, will be helpful to members in considering these matters.

(1) The Cheques Act, 1957, is the outcome of public demand and is designed primarily to dispense with the necessity for the endorsement of cheques which are paid into a bank for the credit of the account of the payee.

Section 3 of the Act provides:

'An unendorsed cheque which appears to have been paid by the banker on whom it is drawn is evidence of the receipt by the payee of the sum payable by the cheque.'

The Mocatta Committee, in the course of their report on cheque endorsement, expressed the following view:

'We are of the opinion that in law a simple receipt for a payment by cheque, not linking the payment with the relative transaction, has no greater value as evidence of payment than the paid cheque itself. This is so whether the receipt is printed on the cheque or is issued separately.'

(2) A Press notice on banking procedure under the Act was published by the Committee of London Clearing Bankers on September 26th, 1957. This is being reproduced in *The Accountants' Magazine* for October. It may be that the Scottish banks will issue a Press statement dealing with any special points arising on procedure in Scotland. Members will no doubt make themselves familiar with these statements.

It is understood that the procedure will be to some extent experimental, pending experience of the working of the new system.

(3) The Committee of London Clearing Bankers in their Press statement express the hope that it will be found possible to dispense with the use of receipt forms on cheques in all but a very limited number of cases, with a view to achieving, as a result of the new legislation, the maximum savings of labour by all concerned.

(4) The Press statement also says that where the payee's name on a cheque is misspelt, or the payee is otherwise incorrectly designated, the collecting bank will normally accept the cheque for collection without indorsement or discharge unless there is some circumstance to make it appear that the customer is possibly not the person to whom payment is intended to be made.

(5) Section 3 of the Act applies only to an unindorsed cheque. The Council therefore suggests that the drawer of a cheque which is to be accepted, unindorsed, as a receipt should restrict the opportunity for indorsement and negotiation so far as it is practicable for him to do so.

(6) An unindorsed paid cheque will in future provide evidence of the receipt by the named payee of the sum payable by the cheque. In order to meet the points mentioned in (4) and (5) above, the Council considers it important that all cheques which are to be accepted, unindorsed, as receipts should (a) state the name of the payee accurately and (b) be crossed *Not negotiable, account payee only*.

(7) The Council is of opinion that if the steps referred to in (6) (a) and (b) above are taken, there is nothing to be gained, on and after October 17th, 1957, by the continued use of the cheque which embodies a simple receipt on the back, or by continuing to obtain a simple receipt for a payment by cheque: the only exception to this is the case of a payment by way of loan in Scotland, which, requiring proof 'by writ or oath', should always be vouched by some form of acknowledgment.

(8) It should be particularly noted that the unindorsed paid cheque will be similar (after October 17th, 1957) to a cheque which bears an indorsement or a simple receipt in that while it will provide evidence of the receipt by the payee of the sum payable by the cheque it will not provide evidence of the nature of the transaction in respect of which the payment was made. Its acceptance for audit purposes will therefore depend on the adequacy of the supporting documents or other evidence.

(9) Should there be payments for which a *Not negotiable, account payee only* crossing on the cheques would cause inconvenience, because the payees wish to negotiate the cheques, a *Not negotiable* crossing could be used and specific receipts called for in these cases.

(10) Some debtors, when making payments, use cheques which incorporate on the back not only a receipt but also a description of the liability discharged. Those who have found it desirable or convenient to adopt this practice in the past may wish to continue it: any who do so (and also those who continue to demand a simple receipt on the back of their cheques) must, to meet the banks' requirements, arrange that on and after October 17th, 1957, their cheques carry a bold letter 'R' on the face. On and after that date the banks will not examine receipts on cheques which do not bear this marking.

(11) Members may find it helpful to read the article 'The Cheques Act, 1957', by Mr David G. Antonio, which will appear in the November issue of *The Accountants' Magazine*.¹

(12) Quite independently of the Cheques Act, and for some time before that Act was passed, the practice of issuing specific receipts (i.e. receipts which link payments with the relative transactions) for cheque payments had been on the decline, and it is to be expected that the dispensing with the issue of such receipts will tend to increase. Many debtors seem prepared to accept this position. It is likely that Section 3 of the Act will give an impetus to this tendency.

(13) The absence in future of specific receipts will often render more difficult the auditor's task where payments have been made by cheque. The auditor must, however, face the fact that the practice of not demanding such receipts is already established to some extent and is likely to grow: as against the additional work which may be caused him, there must be set the economies which the commercial community can secure. There will, of course, be particular cases where the auditor may well think it right to urge upon his client the desirability of continuing the existing practice of obtaining specific receipts. Such cases would include those where the client's records are incomplete and/or where there is a lack of other evidence (such as invoices or detailed statements) of the nature of the transaction in respect of which the payment was made.

(14) Where a debtor has hitherto obtained specific receipts for payments made by cheque he may now be considering dispensing with them. In such consideration it will be appreciated that if he does dispense with them the points arising will include the following:

- (a) In general, all cheques issued in future should be crossed *Not negotiable, account payee only*, and care should be taken that the name of the payee is

accurately stated. Should there, however, be payments for which this crossing would cause inconvenience, because the payees wish to negotiate the cheques, a *Not negotiable* crossing could be used and specific receipts obtained in these instances.

- (b) Specific receipts should be obtained for all payments of a special nature, including loans and compromised settlements of disputed accounts.
- (c) Specific receipts should also be obtained where these will be required for production to third parties, e.g. in connection with claims etc.
- (d) As the document accompanying the cheque sent by the debtor to the creditor will in many cases no longer be returned by the latter, the debtor may find it a useful practice to send with his cheque a remittance advice note (on which any adjustments made on the creditor's claim would be shown) and to retain the creditor's statement, with a note thereon of adjustments which he has made in the creditor's claim.
- (e) The acceptability for audit purposes of the unendorsed paid cheque in place of the specific receipt will depend on the adequacy of the supporting documents or other evidence, and this in turn may involve reconsideration of the accounting system in force.

Clearly it is not possible to be exhaustive in this matter and it will be apparent that, in addition to the points set out in (a) to (e) above, further considerations will be relevant in the circumstances of particular cases, such, for example, as those of local authorities.

(15) It should be noted that neither the Cheques Act nor the practice of a creditor of not issuing receipts affects the statutory obligation on the creditor to provide a properly stamped receipt (for payment of £2 or over) on demand by the debtor.

(16) The foregoing notes apply to payments by cheque: for payments by cash existing practice should be continued.

The Council will continue to watch the position and a further statement will be made if any change in the procedure of the banks, or actual experience of the working of the Act, should render it necessary.

October 3rd, 1957.

Notes and Notices

PERSONAL

MESSRS KIDSONS, TAYLOR & Co, Chartered Accountants, of 1 Booth Street, Manchester, 2, and of Sardinia House, 52 Lincoln's Inn Fields, Kingsway, London, WC2, announce that as from October 1st, 1957, they have taken into partnership Mr DAVID JOHN NICHOLAS TSCHAIKOWSKY, A.C.A.

MR JOHN W. HARDY, A.C.A., of Russell Place, Talbot Street, Nottingham, announces that as from September 30th, 1957, he has amalgamated his practice with that of Mr K. H. NEWSUM-SMITH, F.S.A.A., who has been in practice in Nottingham for a number of years. The firm will be known as HARDY, NEWSUM-SMITH & Co, and the combined practice will be carried on at the above address. Telephone: Nottingham 41986.

MESSRS BIRCH, LITTLEMORE & Co, Chartered Accountants, of 7 Pall Mall, Manchester, 2, and 7 Old Market Place, Altrincham, announce that Mr STEPHEN BADROCK, A.C.A., who has been a member of the staff for four years, has been admitted into partnership. The name of the firm will remain unchanged.

MESSRS BATTY & Co, of 18 St Swithin's Lane, London, EC4, announce that Mr J. G. Grayson, F.S.A.A., has retired from the partnership, leaving Mr D. BUSSELL, M.B.E., F.C.A., F.S.A.A., as sole partner. The style of the firm will remain unchanged.

PROFESSIONAL NOTES

Mr Leslie H. Davies, F.C.A., has been appointed to the board of Miles Electronics Ltd.

Mr Charles Green, F.C.A., has been appointed an additional director of Latifiya (Iraq) Estates Ltd.

Mr R. B. Blaxland, A.C.A., has been appointed deputy chief accountant of The Orion Insurance Co Ltd as from October 1st, 1957.

Mr C. F. Pagnamenta, O.B.E., A.C.A., has been appointed chief accountant of Guest, Keen Iron & Steel Co Ltd, and its subsidiaries.

Mr D. A. Bussell, M.B.E., F.C.A., has been appointed a director of Yatton Furniture Ltd.

Mr E. L. Burton, B.A., A.C.A., has been appointed secretary of Tube Investments Ltd.

¹ An article on the Cheques Act by a member of the legal profession will also appear in next week's issue of *The Accountant*.

WORKS OF ART AND ESTATE DUTY**CHARTERED ACCOUNTANT APPOINTED TO VALUATION PANEL**

Mr C. I. R. Hutton, B.A., C.A., a partner in the firm of Messrs Moores, Carson and Watson, Chartered Accountants, of London, has been appointed by the Chancellor of the Exchequer as a member of the panel of three members to which differences about values in certain cases when works of art are offered in satisfaction of estate duty will be referred. As announced in 'Weekly Notes' in our issue of September 7th, Lord Rockley has agreed to serve as chairman of the panel.

CENTRAL LONDON DISCUSSION GROUP

The first meeting of the Central London Discussion Group of the London and District Society of Chartered Accountants in the 1957-58 session will be held next Wednesday, October 16th, at 6.30 p.m., at *The Lamb and Flag*, 33 Rose Street (off Garrick Street), Covent Garden, London, WC2.

The primary purpose of the meeting will be to welcome new members, and to elect new officers and committee, following which there will be a discussion on 'The presentation of accounts to workers' to be introduced by Mr J. L. Fraser, A.C.A. A list of topics for discussion during the session has been drawn up, but the committee will be glad to consider other suggestions. Subsequent meetings will be held on the third Wednesday of each month.

Chartered accountants wishing to join the group are invited to communicate with the honorary secretary, Mr Stanley Dent, A.C.A., 71 Great Russell Street, London, WC1. Telephone: Chancery 4722.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS**EIGHTH STUDENTS' RESIDENTIAL COURSE**

The eighth students' residential course arranged by the South Eastern Society of Chartered Accountants, at the Royal Pavilion, Brighton, recently, was attended by 108 students.

The course was opened by Mr A. G. J. Horton-Stephens, F.C.A., Vice-President of the Society, supported by Mr C. R. P. Goodwin, F.C.A., President of the Sussex Chartered Accountant Students' Society. A very successful dinner was held at the Royal Pavilion at which Mr P. D. Irons, B.COM., A.C.A., President of the South Eastern Society, presided. Mr P. F. Carpenter, F.C.A., a member of the Council of the Institute, was the principal speaker. The toast of 'The Institute' was proposed by Mr C. M. E. Brown, Vice-Chairman of the Portsmouth Students' Society. Mr H. A. R. J. Wilson, F.C.A., proposed the toast of 'The Students' Societies', and Mr R. M. Gordon, a committee member and former secretary of the Southampton Students' Society, responded.

The high quality of all the lectures delivered and the

informal discussions which followed, received the full approval of students who found the course of great benefit in supplementing their normal studies and professional work.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON**PRESIDENT'S MEETING**

About 700 members of The Chartered Accountant Students' Society of London, attended the annual President's meeting held in Guildhall last Monday evening, when Sir Edwin Herbert, K.B.E., LL.D., immediate Past President of The Law Society, delivered an address on 'The romance of business'.

Sir Harold Gillett, M.C., F.C.A., President of the Society, was in the chair and with him on the platform were the Lord Mayor of London, Colonel Sir Cullum Welch, O.B.E., M.C., Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, and

Sir Thomas Robson, M.B.E., M.A., F.C.A., Mr D. V. House, F.C.A., Mr W. G. Campbell, B.A., F.C.A., Mr E. Kenneth Wright, M.A., F.C.A., Mr W. E. Parker, C.B.E., F.C.A., Sir Harold Barton, F.C.A., Mr H. Garton Ash, O.B.E., M.C., F.C.A., Mr W. S. Carrington, F.C.A., Mr Douglas A. Clarke, LL.B., F.C.A., and Mr H. O. H. Coulson, F.C.A., together with nine members of the Students' Society's Committee.

After being welcomed by Sir Harold Gillett, the Lord Mayor gave a short address. The President of the Institute proposed the vote of thanks to the Lord Mayor and Sir Edwin Herbert then delivered his address which we hope to reproduce in an early issue.

A vote of thanks to Sir Edwin was moved by Sir Thomas Robson, and the meeting concluded with a further vote of thanks to Sir Harold Gillett which was proposed by Mr J. R. Sly, a member of the Students' Society, and received with acclamation.

NEXT WEEK'S MEETINGS

The following meetings of the Students' Society will be held during next week:

Monday, 5.30 p.m., at the Institute: Lecture on 'Fraud in accounts', by Mr W. E. Parker, C.B.E., F.C.A. (member of the Council of the Institute). Chairman: Mr E. Kenneth Wright, M.A., F.C.A. (Chairman, London and District Society of Chartered Accountants).

Tuesday, 5.30 p.m., at the Institute (limited number): Lecture and demonstration of Kenrick and Jefferson accounting methods.

Wednesday, 5.30 p.m., at the Library: Speakers' course lecture on 'How to construct a speech', by Miss H. M. Taylor (Principal, The Abbey School for Speakers).

Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'The fundamentals of auditing', by Mr F. R. Porter, F.C.A., A.C.W.A.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'The basic principles of double-entry book-keeping', by Mr R. J. Carter, B.COM., F.C.A., and on 'The law and its branches', by Mr P. W. Medd, Barrister-at-Law.

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**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF SCOTLAND****OFFICIAL DIRECTORY, 1957**

The *Official Directory, 1957*, of The Institute of Chartered Accountants of Scotland, now published, records that membership of the Institute at July 1st, 1957, numbered 6,117—an increase of 155 on the previous year's figure. An analysis of the total membership shows that there are 3,214 members in Scotland, of whom 978 are in practice on their own account or as partners in firms. Of the remaining members, 1,890 are in the United Kingdom outside Scotland and 1,013 are abroad; the numbers of those in practice are 242 and 209 respectively.

The *Directory* contains the usual alphabetical and topographical lists of members, together with details of the membership of the Council of the Institute and of the Standing and Local Committees for 1957-58.

**THE CANADIAN INSTITUTE OF
CHARTERED ACCOUNTANTS****RAPID GROWTH IN MEMBERSHIP**

The annual report of The Canadian Institute of Chartered Accountants for the year 1956-57 shows that the membership of the Canadian Institute at April 30th, 1957, totalled 7,444, compared with 6,873 a year earlier. The number of students reached the record number of 4,004, and in the 1956 Final examinations, 57 per cent of the candidates passed, compared with 60 per cent in 1955.

During 1956, the Canadian Institute and the Canadian Bar Association submitted their joint annual brief containing twenty-six recommendations for amendments to the Income Tax Act to the Federal Government. The joint recommendations urging tax exemptions for pension contributions by the self-employed were substantially the same as those announced by the Minister in March.

**SOUTHEND-ON-SEA CHARTERED
ACCOUNTANTS' GROUP**

The first winter dinner meeting of the Southend-on-Sea Chartered Accountants' Group, the annual general meeting, will be held next Thursday, October 17th, at Garons Restaurant, High Street, Southend, at 6.30 p.m. for 7 p.m.

**THE INSTITUTE OF COST AND WORKS
ACCOUNTANTS****ENFIELD AND DISTRICT SUB-BRANCH**

The Enfield and District Sub-branch of The Institute of Cost and Works Accountants is holding a meeting next Tuesday at 7.30 p.m. in the Eastern Gas Board's lecture room, Sydney Road, Enfield, Middlesex.

The meeting will be addressed by Mr C. D. Ellis, F.C.W.A., who will speak on 'Human relations in industry'. Members and students living in the district who are able to attend will be welcome.

**THE SOUTH WALES
AND MONMOUTHSHIRE SOCIETY
OF CHARTERED ACCOUNTANTS**

At the recent annual general meeting of The South Wales and Monmouthshire Society of Chartered Accountants the following officers were elected for 1957-58:

President: Mr Bernard E. Brown, F.C.A.

Vice-President: Mr B. Rowe, F.C.A.

Hon. Treasurer: Mr H. E. Halliday, F.C.A.

Hon. Librarian: Mr L. V. West, F.C.A.

Hon. Secretary: Mr Colin Montgomery Williams, F.C.A.,
11 and 12 Wind Street, Swansea.

**THE INSTITUTE OF INTERNAL AUDITORS
LONDON CHAPTER**

The first meeting in the 1957-58 programme of the London Chapter of The Institute of Internal Auditors was held recently at *The Kingsley Hotel*, Bloomsbury Way, London, W.C.1, when Mr W. R. Davies, President of The Institute of Internal Auditors, spoke on 'The status of internal auditing in America'.

Other meetings, also to be held at *The Kingsley Hotel*, have been arranged as follows:

November 6th, 12.30 p.m.: 'The internal auditor: some highlights of the session at the Seventh International Congress of Accountants at Amsterdam', by Mr E. H. Sinnott, F.I.M.T.A., chief accountant, South Eastern Electricity Board.

December 6th, 10 a.m.: Day conference.

January 8th, 1958, 12.30 p.m.: 'Some aspects of controllership', by Mr J. R. Robinson, A.C.A., treasurer, The Rio Tinto Co Ltd.

February 5th, 6.30 p.m.: 'The organization of a large bank', by Mr S. Stidston, chief inspector, Midland Bank Ltd.

March 5th, 12.30 p.m.: 'Co-ordination between the statutory auditor and the internal auditor', by Mr J. D. Russell, F.C.A.

April and, 6.30 p.m.: 'The audit of marketing activities', by Mr G. D. Bunce, Birds Eye Foods Ltd.

May 7th, 12.30 p.m.: 'Human relations', by Mr T. P. Lyons, personnel officer, Philips Electrical Industries Ltd.

June 11th, 6.30 p.m.: Annual general meeting.

The Secretary of the Chapter is Mr R. P. Tester, c/o Unilever Ltd, Unilever House, Blackfriars, London, EC4. Telephone: Central 7474.

CONGRESS REPORT: CORRECTION

We regret that there is an error in the caption to the photograph taken at the dinner for delegates included in the report of the Seventh International Congress on page 333 of our issue of September 21st, 1957. The gentleman we described as Dr W. M. Schokking, a member of the State Council of the Netherlands, is Dr M. J. Prinsen, Governor of the Queen for the Province of North Holland.

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RECOMMENDATION XVII

THE preparation of annual accounts is necessarily a retrospective exercise and, in the course of it, consideration must be given to events occurring after the balance sheet date relevant to the capital and revenue positions which the accounts are intended to define. The broad rule is that where these happenings have a definite material bearing on the accuracy of the accounts, adjustment should be made therefor. The subsequent movements of debtors and creditors provide many examples. A sales ledger balance, thought at the close of the financial year to be good, may shortly afterwards be demonstrated to be doubtful or bad by the receipt of a notice calling a meeting of the debtor's creditors. Again, the settlement of the amount of a liability in dispute may allow the agreed sum payable to be substituted for the previous estimate. In the same way, although not normally to the same extent, the values of stocks and fixed assets as at the balance sheet date may be made more definitive with the aid of information which has subsequently become available.

So long as the happenings, as exemplified above, relate to transactions on or before the balance sheet date, the decision to adjust or not to adjust is fairly straightforward. There are, however, two other kinds of after-events to be reckoned with. One has a direct and measurable impact on future financial statements and may include a merger plan, the purchase or sale of a subsidiary, or a fire causing extensive damage to plant. The other kind, oblique and incalculable, relates to company policy or politics and might be a change in products or in management personnel, a strike or the loss of an important customer.

The extent to which such items of information should be disclosed to shareholders and the manner in which they are to be communicated is primarily a matter for the directors. What is important, from the standpoint of producing objective financial accounts, is that news must not be confused with history.

To make clear this distinction, the Council of The Institute of Chartered Accountants in England and Wales has just issued a new recommendation - No. XVII in the series of Recommendations on Accounting Principles (reproduced elsewhere in this issue) - to members on the best practice to advise in the circumstances.

In 1954, the American Institute of Certified Public Accountants published an auditing procedure statement on the same theme.¹ The two documents, one from the accounting and the other from the auditing angle, notably illumine an aspect of professional work which is more difficult and potentially dangerous than is generally appreciated.

¹ *The Accountant*, January 15th, 1955, page 57.

CAPITAL ISSUE CONSENTS

FROM time to time in the past, THE CHANCELLOR OF THE EXCHEQUER has sent open letters to the Capital Issues Committee giving them the general lines on which he desires to exercise their discretion in recommending consent or refusal to the raising of capital or issuing of bonus shares requiring Treasury consent. At different times emphasis has been laid on different matters; for a time bonus issues above the statutory exemption limit were refused out of hand, and at one time priority was given to armament manufacturing projects. Of course, any raising of capital for an export business, other things being equal, receives sympathetic consideration. What have been lacking were reliable statistics as to how the Capital Issues Committee has been interpreting its instructions. It is true, public issues which have been made have shown the kind of case which has received official blessing, while one or two disappointed applicants have made public the fact of refusal, but there have been lacking comprehensive statistics. Now the Treasury has lifted the veil by publishing some quite detailed figures in the September issue of the *Monthly Digest of Statistics*.¹

The statistics, which are contained in Table 139 of the *Digest*, cover the three and a half years ended June 30th, 1957, and in the case of the last eighteen months of that period, give separate figures for each quarter. The table is complicated by the fact that there was a change in the exemption limit in March 1956. Before that date borrowings or issues totalling not more than £50,000 for one person did not require consent; after that date the limit was reduced to £10,000. Consequently separate figures are given for consents and refusals related to amounts of £50,000 and under, though of course these figures do not appear for periods before the second quarter of 1956.

Perhaps the most striking feature of the new table is the sharp increase in refusals over the second quarter of this year. Notwithstanding the fact that the total applications in the second quarter were only three more than in the first quarter (1,084 against 1,081), the outright refusals increased from 145 to 179. In the fourth quarter of 1956, out of 963 applications, only 101 were refused outright.

The total amount involved in the second quarter of 1957 was £495.7 million, of which £201½ million was accounted for by three overseas applications (not by governments) which were refused. In the field of home commercial and industrial issues, including private mortgages, the total refusals were 167, involving some £15½ million. Another nine refusals to investment trusts, finance and land mortgage companies, banks, etc., accounted for a further £1 million. Of the total amount allowed of £274 million, rather less than £14 million concerned individual applications not exceeding £50,000. In the preceding quarter, applications totalling over £479 million were allowed, of which again individual applications not exceeding £50,000 totalled between £13 and £14 million. The refusals in the case of smaller applications were remarkably high. In the first quarter of 1957 the total amount involved in these refusals was £2½ million, i.e. not less than fifty individual cases; in the second quarter, permission was refused for an aggregate of £3.4 million, or not less than sixty-eight cases.

Separate figures are given for what the table calls 'new projects' and 'other applications'. The former are those in which 'new money' is available to the applicant; the latter include capitalization of reserves, share issues to redeem securities, conversions and renewals. Even in this sector there has been a sharp increase in refusals: from £3 million to £4 million.

Notwithstanding the stiffening attitude of the authorities, the actual refusals (excluding the £201 million required by overseas companies) have not very greatly reduced the amount of capital issues – assuming that no one has been dissuaded from applying owing to a belief that consent would be refused. This latter aspect can only be a matter for conjecture.

Since, however, nothing is to be lost by seeking consent, and since the proportion of consents to refusals is so high, it is doubtful whether many people are in fact dissuaded from seeking consent. There are, of course, marginal cases where a new project is shelved because of the many complexities and difficulties, of which the necessity for capital issue consent is only one.

¹ H.M.S.O. 5s net.

THE CHEQUES ACT, 1957

HOW FAR THE LAW IS CHANGED

by SPENCER G. MAURICE

IN the past, one of the first things which a person learned on opening a banking account was the importance attached by bankers to the payee or endorsee endorsing a cheque in a manner corresponding to the description given to him therein. A cheque which was irregularly endorsed was not 'regular on the face of it' within Section 29 (1) of the Bills of Exchange Act, 1882, and the need for precise endorsement lay in the fact that the banker who failed to exact a regular endorsement stood to lose the special protection in regard to cheques which is given to him by that Act.

Where, however, as happens in the vast majority of cases, a cheque is not negotiated but is presented for payment by the payee, endorsement is, from the practical point of view, superfluous: for the argument that the need for endorsement makes misappropriation more difficult is of doubtful validity, especially when it is remembered that Section 60 of the Act protects the paying banker from a forged endorsement.

Since the signing of an endorsement and the scrutiny of it are both acts which, when multiplied many times, consume a vast amount of the time of the customer and the banker respectively, it is reasonable to eliminate the need for them when they serve no good purpose. This is what the Cheques Act, 1957, sets out to do, and in so far as it seeks to minimize the number of endorsements and the scrutiny thereof, it appears to succeed. But in so far as it aims at enabling a banker to avoid turning a cheque over at all, it seems to be limited in its effect; admittedly, the paying banker will seldom be concerned to look at the back, but the collecting banker should perhaps always do so.

Instruments within the Act

Section 17 of the Revenue Act, 1883, extended the provisions of the Bills of Exchange Act relating to crossed cheques (Sections 76 to 82) to any document issued by a customer of any banker and intended to enable any person to obtain payment from the banker of the sum mentioned therein (that is to say, dividend and interest warrants), and provided that H.M. Paymaster-General and the Queen's and Lord Treasurer's Remembrancer in Scotland should

for this purpose be regarded as bankers and the public officers drawing on them as customers. The Bills of Exchange Act (1882) Amendment Act, 1932, extended Sections 76 to 82 of the parent Act to banker's drafts.

In conformity with those enactments the protection given by Section 1 of the new Cheques Act to the paying banker applies not only in regard to cheques, but also to documents issued by a customer of the banker which, though not bills of exchange, are intended to enable persons to obtain payment from the banker of the sums mentioned therein, and to bankers' drafts. Similarly, the protection given by Section 4 of the Act to the collecting banker extends to those instruments; and it extends also to any document, not a bill of exchange, which is issued by a public officer and intended to enable a person to obtain payment from the Paymaster-General or the Queen's and Lord Treasurer's Remembrancer of the sum mentioned in the document.

The crossed cheques provisions apply by virtue of Section 5 of the Cheques Act; consequently, Section 17 of the Revenue Act, 1883, and the whole of the Bills of Exchange Act (1882) Amendment Act, 1932, are repealed by Section 6 (3) of and the schedule to the Cheques Act. It is important to appreciate that the special protection given to bankers by the Bills of Exchange Act, 1882, did not extend to bills of exchange other than cheques, albeit drawn on a banker, and that this situation is preserved under the Cheques Act.

Protection of the Paying Banker

Although Section 60 of the Bills of Exchange Act gives the paying banker protection against the forged (and therefore invalid) endorsement, provided that he pays in good faith and in the ordinary course of business, it does not protect him if the endorsement, albeit valid (in other words, written by someone having authority to endorse) is irregular, so that the instrument is not 'regular on the face of it', since the banker who fails to exact a correct endorsement does not (apart from the Cheques Act) act 'in the ordinary course of business', as was held by Wright, J., whose decision was subsequently affirmed by the Court of Appeal in *Slingsby and Others v. District*

Bank Ltd ([1931] 2 K.B. 589, 598; [1932] 1 K.B. 544 (C.A.)). Where the cheque is crossed, Section 60 must be read in conjunction with Section 80, which restricts the paying banker's protection to cases where he pays 'in good faith and without negligence' in accordance with the mandate of the crossing.

The effect of Section 1 of the Cheques Act is to extend the protection of the paying banker under Sections 60 and 80 of the Bills of Exchange Act to cases where the endorsement is irregular (whether or not valid) or non-existent by providing that, if he pays in good faith and in the ordinary course of business, he shall not incur liability 'by reason only of the absence of, or irregularity in, endorsement'.

As observed above, the protection extends, not only to cheques, but also to certain other instruments. In paying any such other instrument the banker discharges it; in paying a cheque he is deemed to pay it in due course: the distinction seems to be without point.

Protection of the Collecting Banker

Prior to the Cheques Act, a collecting banker whose customer's title was defective could defend an action for conversion only if the cheque were crossed and he could bring himself within the protection of Section 82 of the Bills of Exchange Act. That he had no protection where the cheque was not crossed is clear from the speech of Lord Lindley in the House of Lords in *Capital and Counties Bank Ltd v. Gordon: London City and Midland Bank Ltd v. Gordon*: [1903] A.C. 240, 247).

Section 82 is repealed by the Cheques Act; Section 4 of which in effect replaces it; but Section 4 applies equally to crossed as to uncrossed cheques and other instruments, so that the protection afforded to the collecting banker is now greatly increased. Section 4 preserves, however, the requirement contained in Section 82 of the Bills of Exchange Act that the banker should act 'in good faith and without negligence', while providing that he is not, for the purposes of the section, to be treated

'as having been negligent by reason only of his failure to concern himself with absence of, or irregularity in, endorsement of an instrument'.

The protection of the collecting banker extends to the case where, having credited a customer's account with the proceeds of a cheque (or other instrument to which the Cheques Act relates), he receives payment thereof for himself. This is in substance a re-enactment of the Bills of Exchange

(Crossed Cheques) Act, 1906, which is repealed. A banker who, before he effects collection, is a holder for value, and so receives payment for himself, and not for his customer, is still unprotected if the customer has no title, or only a defective one. In other words, the banker's protection is confined to the case where he receives payment as an agent. Whether a banker takes as a holder for value or as an agent is in every case a question of fact.

Cheques which have been Negotiated

What of the cheque which has been negotiated, where the endorsement has a purpose? Section 6 (2) of the Cheques Act provides that no instrument shall be negotiable, which apart from the Act would not be negotiable, but otherwise is silent on negotiation. It is quite clear that, as a matter of law, the collecting banker must have regard to any endorsement if a cheque which his customer presents to him for collection has been negotiated, and this is fully recognized in the procedure which the bankers have adopted and which is set out in the statement of the Committee of London Clearing Bankers.¹

To take a simple example, if X. pays in for the credit of his account a cheque made payable to Y., X.'s banker clearly cannot ignore the fact that his customer is not the payee, but must turn over the cheque to satisfy himself that X. has by the process of endorsement, whether in blank or otherwise, become the true owner of the cheque. This appears to be inevitable in view of the duty of the collecting banker towards the true owner to act without negligence which is referred to below.

On the other hand it seems that, as a general rule, the paying banker may ignore with impunity the back of the cheque – unless, perhaps, there is anything on the face of it to rouse his suspicions – because it would surely be open to him to say that his duty is restricted to his obligations towards his own customer, the drawer and his obligation to pay in good faith with due regard to the crossing, if any. An exception to the general rule occurs when the cheque is a 'receipt on back' type and the banker has agreed to examine the signatures of payees on such cheques. (The case of a cheque as a receipt is referred to further below.) At all events, the duty of the paying banker must, it is thought, ultimately rest on the practice of bankers: that is to say, he will be protected only if he acted in accordance with that practice, because otherwise he cannot say that he acted 'in the ordinary course of business'.

¹ Reproduced in *The Accountant* of October 5th, 1957.

Negligence

It may be observed that the Cheques Act perpetuates, in Section 1 and Section 4 respectively, the expressions 'in the ordinary course of business' (in the context of the protection given to the paying banker) and 'without negligence' (in the context of the protection given to the collecting banker), without answering the question, which was the subject of judicial disagreement in the Court of Appeal in *Carpenter's Co v. British Mutual Banking Co Ltd* ([1938] 1 K.B. 511), whether a thing can be done negligently and at the same time in the ordinary course of business; so that negligence does not necessarily preclude the protection of Section 60 of the Bills of Exchange Act (and hence of Section 1 of the Cheques Act).

What is meant by negligence in Section 82 of the Bills of Exchange Act – and the word must have the same meaning in Section 4 of the Cheques Act – was considered in *Bissell & Co v. Fox Brothers & Co* ((1884) 51 L.T. 663; (1885) 53 L.T. 193 (C.A.)). Denman, J., in the Queen's Bench Division, said ((1884) 51 L.T. 666):

'It is clear, I think, that the negligence contemplated in Section 82 must mean the neglect of such reasonable precautions as ought to be taken with reference to the interests, not of the customer who purports to have the authority, but of the principal whose authority he purports to have, the section being framed wholly with reference to the liability of the banker to the "true owner" of the cheque, and not with reference to his liability to his customer.'

This view the Court of Appeal subsequently adopted.

Cheques as Receipts

Section 3 of the Cheques Act provides that an unendorsed cheque which appears to have been paid by the drawee, is evidence of receipt by the payee of the sum payable. This is a provision of particular importance to the accountancy profession in view of the widespread modern use of the 'receipt on back' type of cheque. The banks are anxious, as appears from the statement of the Committee of London Clearing Bankers, that the use of this type of cheque should be dispensed with as far as possible, since it obviously gives the banks additional work, and the matter has been considered at some length in the statement of the Council of The Institute of Chartered Accountants in England and Wales.¹ Probably few will quarrel with the Mocatta Committee's view that, from the point of view of evidence of

payment, the paid cheque (even if unendorsed) is not less useful than the cheque with a receipt on the bank which does not link the payment with the relative transaction – though from the practical point of view the payee's endorsement may on occasion be of value to the auditor.

Section 3 in no way alters the law in regard to the giving of receipts. This, curiously enough, is to be found in Section 103 (2) of the Stamp Act, 1891, a statute which is, of course, concerned, not with the interests of parties to monetary transactions, but with the getting in of revenue in the form of stamp duty. The effect of that provision is to make obligatory the giving of a receipt (properly stamped) where the amount paid is £2 or more, if a receipt is demanded. The duty of stamping the receipt is in effect (though not in express terms) cast upon the creditor. No obligation to give a receipt exists when the amount paid is less than £2, simply because there is then no obligation to stamp, and the case is therefore outside the purview of the Stamp Act. In those cases where there is a statutory exception to the requirement that a receipt for £2 and upwards be stamped – for example, the payment of salary or wages – it seems clear that the giving of a receipt cannot be required, irrespective of the amount involved.

Receipts as Evidence

No receipt is more than prima facie evidence of payment and the advantage of a separate receipt referring unequivocally to the transaction involved over the paid cheque, whether unendorsed or incorporating a receipt, lies simply in weight of evidence.

In those cases where, for one reason or another, there is clearly a practical need for a receipt in unequivocal terms and the amount involved is £2 or more, an adequate receipt should still be demanded; an obvious example is a receipt needed to support a claim for maintenance, including maintenance of agricultural land and buildings, under Schedule A (Income Tax Act, 1952, Sections 101 and 313).

Collecting Banker's Lien

It remains but to refer briefly to Section 2 of the Cheques Act. That section preserves the rights of collecting bankers by providing that a banker who gives value for, or has a lien on, a cheque which has not been endorsed by the holder shall have such rights as he would have had if it had been endorsed in blank. It is to be observed that the application of this section is restricted to cheques alone.

¹ Reproduced in *The Accountant* of October 5th, 1957.

INCOME APPORTIONMENT — II

by PETER WHITWORTH, B.A.

This article, in two parts, presents a general conspectus of the various rules for the apportionment of income between different persons both in general law and for tax purposes. The first part appeared in last week's issue.

Schedules A and B

INCOME from the ownership of property, other than rents under long leases, is assessed on an arbitrary basis; the Schedule A assessment being sometimes supplemented by an 'excess rent' assessment. Schedule B assessments on the notional income from occupation are even more arbitrary, being simply one-third of the Schedule A annual value. Schedule A and B assessments have the peculiarity that they are not confined to the individual assessee; they survive against his successor if he gives up ownership or occupation.

For Schedule B there is a simple provision for apportionment of the assessment between old and new occupiers, on a day-to-day basis (Income Tax Act, 1952, Section 115). A similar apportionment applies when one owner-occupier is succeeded by another (Section 106 (a)) and the accrued tax is allowed for in the apportionment account. Outside that simple case, all sorts of difficulties can arise because of the complicated rules for collection of tax from the occupier and of his limited right to deduct tax from rent. The strict allocation of liability may be difficult to calculate and often enough is replaced by a compromise agreement to split the liability on a day-to-day basis. For Schedule C income, the date of payment determines the rate of tax.

Interest and other income assessable under Case III of Schedule D is allocated to the year in which it 'arises', i.e. when it becomes payable. Of course, it then remains to be seen for what assessment year(s) the year of arising is the basis year. Similar rules apply to income assessable on the 'arising basis' under Cases IV and V. Where the 'admittance' basis applies, a remittance is allocated to the tax year in which it is received. Remuneration assessable under Schedule E is allocated to the year for which it becomes payable and if a lump sum is paid 'for' a period extending into more than one income tax year, it is apportioned on a strict time basis (*Heasman v. Jordan* (33 A.T.C. 324; 35 T.C. 518)).

Where profits are computed by reference to the balance of an account, for the purpose of assessment under Cases I, II or VI of Schedule D, different considerations arise. The taxpayer chooses his own period of accounts, and when these are made up, the question may arise whether or not a specific item, whether receipt or expense,

should be allocated to that period. This is a subject by itself. Once the profit shown by the accounts has been arrived at, the question may arise as to the apportionment of the accounting period to specific income tax years or specific basis period. It is to be made 'in proportion to the number of months or fractions of months in the respective periods' (Income Tax Act, 1952, Section 155). This is not quite the same as a *de die in diem* basis since it gives more weight to, say, a day in February than to a day in March.

Profits Tax

The corresponding provision for profits tax carries a proviso: the months and fractions of months method of apportionment applies 'unless the Commissioners of Inland Revenue having regard to any special circumstances otherwise direct' (Finance Act, 1937, Section 20 (4)). This leaves the way open to any kind of apportionment; e.g. having regard to the seasonal nature of a business. In practice, the strict time basis is only departed from at the instance of the taxpayer and only when he can show good grounds for it.

Sometimes an assessment on profits, as distinct from the profits shown by a particular set of accounts, has to be apportioned. It may be that there has been a change in a partnership and the parties have elected to continue to have assessments made on the basis of a continuing business. Again a business carried on by a company may change hands, but fall to be assessed on the continuing basis, under the anti-avoidance provision introduced in 1954. In either case, the assessment must be apportioned 'as may be just' (Finance Act, 1953, Section 19 (4); Finance Act, 1954, Third Schedule, paragraph 2). Here again, the apportionment is normally made on a time basis.

Equitable Apportionment of Income

The Revenue once vainly argued that the seller of War Loan cum dividend ought to be taxed on such part of the purchase money as represented the accrued interest, thus reducing the purchaser's tax liability.¹ Conflict of interest between persons entitled to income and persons entitled to capital is more familiar in the administration of trusts. Where trustees buy cum dividend or sell ex-dividend, the life-tenant benefits at the expense

¹ *Wigmore v. Thos. Summerson & Sons Ltd* (4 A.T.C. 487).

of the remaindermen and vice versa. Normally, he takes the rough with the smooth, there being no general equity to dissect every transaction.

However, Chancery judges have felt justified in interfering, in certain circumstances, with the result that a mass of law has been created which raises very difficult problems of apportionment. So difficult are they that executors and trustees tend to shut their eyes to the so-called 'equitable rules', which are perhaps more familiar in the examination room than in actual practice.¹ Well-drawn wills usually exclude them altogether.

The best known rule is the one for apportioning income which arises from a wasting or hazardous asset forming part of a deceased person's estate. Called the rule in *Howe v. Lord Dartmouth*, it is best exemplified by *Re Fawcett* ([1940] Ch. 402). Broadly speaking, if the trustees retain unauthorized investments, the excess income from them over the normal yield is to be accumulated, but as a corollary, any shortfall below the normal yield is to be made up to the life-tenant out of the proceeds of subsequent sales of unauthorized investments and out of subsequent excess income. Applying the rule will obviously affect the life-tenant's surtax liability and his title to income tax repayment. However, where a single lump sum is paid to him out of proceeds of sale, to make up for past years, it seems difficult to say with confidence that such a payment is an 'annual payment', notwithstanding the numerous authorities about capital payments received as income. On the other hand, if Section 170 of the Income Tax Act, 1952, is in fact excluded, then it is arguable as a matter of equity that since the object of the payment is merely to restore the normal position and not to give the life-tenant an extra advantage, a sum equal at least to standard rate tax ought to be deducted and retained. Even this will not restore abstract equity if the life-tenant pays the top rate of surtax.

Re Chesterfield

The rule in *Re Chesterfield* (24 Ch.D. 643) provides for the converse case, where a non-income-producing asset is retained and then sold; the life-tenant is to be given compound interest out of the sale proceeds. This is not, strictly speaking, a case of apportioning income at all, and clearly the payment could not be said to be an annual payment from which tax is required to be deducted under Section 170. On the other hand, notional tax is deducted in arriving at the sum to be paid to the life-tenant. Again, when a

mortgage held by the trustees produces less than the stipulated interest and the power of sale is exercised, the proceeds are divided between life-tenant and remainderman, but unless more than the principal is realized, there seems to be no warrant for treating the life-tenant's proportion as income for tax purposes. On the other hand, the life-tenant's share, in view of that, should be calculated *net* after a notional deduction of tax. If he is a heavy surtax payer he may benefit from the fact that the mortgage proved unprofitable. If more than the principal is realized, the excess is clearly interest from which the mortgagor should deduct tax, and it will be income for tax purposes in the hands of the life-tenant.

Another rule of equitable apportionment is that exemplified in *Allhusen v. Whittell* ((1867), 4 Eq. 295), which is directed to ensuring that the life-tenant does not receive the income on that part of an estate which is eventually applied in paying the testator's debts. It has been held that this rule has no application as between the life-tenant and the income tax authorities (*Corbett v. C.I.R.* (16 A.T.C. 389; 21 T.C. 449)), but that case turned on the fact that income of deceased's estate during the administration is the executors' income for tax purposes, and no one else's. The case was followed by elaborate legislation to ensure that what the life-tenant does, in fact, receive is treated as his income for tax purposes.

Settled Land Act Apportionments

Where land is settled, there are some statutory rules for apportionment of income between life-tenant and remaindermen which are reminiscent of the equitable rules mentioned above. Thus, where a mining lease is granted, a life-tenant not impeachable for waste in respect of minerals, receives only three-quarters of the rent; if impeachable for waste, he receives only one-quarter, unless the terms of the settlement evince a different intention. Again, a tenant for life impeachable for waste in respect of timber must account for three-quarters of the proceeds of the cutting and sale of timber. An attempt was made in *Re Pelly* (35 A.T.C. 98) to introduce a rule of equitable apportionment in a case where a tenant for life expended money on improvements and recovered it from the trustees but at the same time obtained income tax allowances on it. The trustees claimed that he ought to account for the allowances, on the analogy of *Re Pettit* ([1922] 2 Ch. 765). It is, perhaps, fortunate that the Court of Appeal rejected this attempt, for *Re Pettit* has produced untold complications. (Concluded.)

¹ See *Carlisch v. C.I.R.* Tax leaflet 1837.

ASCERTAINMENT OF PROFIT IN BUSINESS

by C. I. R. HUTTON, B.A.(Oxon), C.A.

*A paper presented on September 13th in Amsterdam at a business session of the
Seventh International Congress of Accountants**'I can easier teach twenty what were good to be done
than be one of twenty to follow my own teaching.'*Shakespeare, *The Merchant of Venice*,
Act I, Scene 2.

Mathematics and Politics

ARISTOTLE said that it is the mark of an educated person to seek that degree of accuracy on any subject which the nature of the subject admits: and that to accept a plausible estimate from a mathematician is on a par with asking a politician for demonstrative proof.¹

Can there be any question whether the ascertainment of profit in business ranks as mathematics or politics? Apparently the Council of The Institute of Chartered Accountants in England and Wales (generally known outside England as the 'English Institute') had no such doubts when they recorded their approval of a basis of preparing annual accounts which 'reduces to a minimum the extent to which the accounts can be affected by the personal opinions of those responsible for them'.²

Possibly, however, the question merits some brief examination. The English Institute itself points out that accounts affected by the minimum of personal opinion 'are not necessarily suitable for purposes such as price fixing, wage negotiations and taxation unless in using them for these purposes due regard is paid to the amount of profit which has been retained in the business for its maintenance'.³

Whether the amount which has been retained in the business for its maintenance is profit or not seems to depend on the meaning not only of the word 'profit' but also of the word 'maintenance'.⁴ Clearly, in its context here, maintenance means preservation of the continuity of the business. And no doubt the

Chancellor of the Exchequer may have had this meaning in mind when he said, as quoted recently in *The Accountant*, that 'about 15 per cent of profits earned is needed to keep factories and plant in good repair and up to date'.⁵

If it were as easy as might appear from the Chancellor's observation to calculate the amounts required for the maintenance of a business there would be no difficulty in deducting the amount before arriving at the annual profit figure. But a strong body of professional opinion in the United Kingdom holds that calculations which must be based in the main on personal experience, knowledge and judgment are insufficiently 'mathematical' by nature to justify their admission to the list of expenditure incurred in earning the profits. The result achieved by the exclusion of such amounts is a mathematical answer, but the value of the answer to the reader will depend on the extent to which he is trained to pay 'due regard' to the more subjective factors omitted from the calculation.

The attachment to mathematical accounts in the United Kingdom is perhaps, in part, a reaction from the excessive exercise of 'personal opinion' permitted by earlier Acts of Parliament. Prior to the passing of the Companies Act, 1948, the balance sheet of a United Kingdom company showed a legally 'true and correct view' of the state of affairs even if the fixed assets had been over-depreciated, the stock-in-trade undervalued and the liabilities swollen by provisions for unimaginable contingencies. There was no statutory obligation that the profit and loss account should be 'true and correct' and it was not illegal to make undisclosed transfers to hidden reserves before striking the disclosed profit of the year. Undisclosed transfers from hidden reserves to swell the disposable profits had gone out of fashion after the *Royal Mail* case, but consolidated accounts were not called for and holding companies could, and many did, disclose only such part of the subsidiaries' profits as they chose to receive by way of dividend.

⁵ *The Accountant* of September 8th, 1956, a leading article headed 'Facing Facts'.



Mr C. I. R. Hutton

¹ Aristotle, *Nicomachean Ethics*, I, 3.

² The Institute of Chartered Accountants in England and Wales, *Recommendations on Accounting Principles*, No. XV, paragraph 287.

³ Op. cit., paragraph 312.

⁴ Cf. Lewis Carroll, *Through the Looking Glass*: 'When I use a word,' Humpty Dumpty said in rather a scornful tone, 'it means just what I choose it to mean - neither more nor less.'

Informed professional opinion had for some years been pressing for reform and a favourable climate awaited the accounting requirements contained in the 1948 Act in which attention was for the first time given to the contents of the profit and loss account and somewhat rigid regulations were included, designed to disclose the 'true and fair' profit of each year and to reveal the fluctuations between one year and another.

What had not perhaps been fully foreseen was the effect of the change, in an inflationary era, upon unprofessional opinion among politicians and trade unionists. The freedom of manoeuvre available under previous legislation had made it possible to disclose a profit not substantially in excess of what could in effect be disposed of without adversely affecting the continuity of the business. Now that the application of the sums so set aside is shown in the accounts – and shown as appropriations of profit – the amounts tend to be ignored by politicians and trades union leaders in assessing the social justification for the profits earned and the ability of the business to meet claims for higher wages. Indeed a wide range of opinion, from the Prime Minister downwards, has come to regard a growth in profits as at least reprehensible and an increase in dividends as positively anti-social – a surprising state of affairs in a nation which reached its peak of power on the basis of profitable trade!

These problems have not been solved and will not solve themselves while we do no more than continue to produce accounts which, though mathematically correct and conforming to the requirements of the Statutes, are unsuitable, without re-interpretation, for the other purposes in which they find themselves employed. Some 'further education' seems to be needed if a better understanding is to be reached, and if we are satisfied with our own attainments we must presumably concentrate our efforts on those of our readers who credit our accounts with a higher degree of accuracy than the nature of the subject admits.

There are, of course, as always in the United Kingdom, exceptions to any general rule. Our banks and insurance companies are exempt from the obligation to disclose a true and fair profit for the year on the grounds that to do so might endanger the confidence which these important institutions enjoy both at home and abroad. Shipping companies can claim similar exemptions, presumably for the reasons expressed so succinctly in Note 1 below. Other giant institutions of national importance such as Imperial Chemical Industries Ltd are obliged to disclose the true and fair profit of each year and it can only be supposed that in such cases disclosure is considered unlikely to endanger confidence, or to

attract the 'curiosity of foreign countries', to an extent likely to damage our national interests.

Again there is nothing except the disapproval of the English Institute to prevent a company from revaluing its fixed assets, thus attracting a charge for depreciation on the basis of replacement cost; and even the Institute's disapproval does not apply 'in cases where a subsidiary is acquired and the assets are written up to reflect the cost to the acquiring company, or where subscriptions for new capital are invited on the basis of a current valuation of the assets'.²

Astronomical Figures

The reference to 'annual accounts' in the English Institute's observation [Note 2, page 452] indicates general acceptance of the principle that accounts should be produced at regular intervals measured by the time that it takes the earth to go round the sun. Nevertheless, some of the difficulties met in ascertaining profits in business arise from the artificial concept that a true and fair view of the profit of a continuing business can be ascertained at annual and only at annual intervals.

Businesses engaged in long-term contracting are particularly affected by these difficulties. An exceptionally interesting professional paper written some years ago includes an entertaining reference to their problems:

'If the orthodox principle of bringing into account only realized profits is accepted, the accounts for any year might, by themselves, be almost meaningless. While the practice is not uniform, it is quite common for sums on account of profit on uncompleted contracts to be brought in. Whether the effect of this is to produce results which really reflect the varying fortunes of the business will depend on the objectivity with which the uncompleted contracts are assessed – in other words, the success with which the temptation to aim at equalizing profits has been resisted.'³

The excerpts from two recent advertisements quoted below indicate that both companies concerned prefer the use of the 'orthodox principle' but it will be noted that whereas in one case⁴ provision for

² Op. cit., paragraph 297.

³ *Accounting Statements – A General Formula*, by Thomas Lister, C.A. (Edinburgh and Glasgow Chartered Accountant Students' Societies' Transactions, 1950-51.)

⁴ Excerpt from an advertisement issued by Holst & Co Ltd and published in *The Financial Times* dated May 2nd, 1956:

'The bulk of the company's business comprises important contracts, some of which may take several years to complete. The practice is to take no profit into account until the contract is complete apart from maintenance obligations for the cost of which provision is made. Exceptionally, where a contract takes the form of a number of separate orders and runs over several years, profit is taken on work carried out in each financial year. Provision is made against contracts in progress the position of which is such that a loss may be expected.'

¹ Excerpt from a letter to *Accountancy*, July 1956, written by Mr Charles W. Aston, A.C.A., of the Peninsular and Oriental Steam Navigation Co: 'The curiosity of foreign countries in the profits of British shipping companies is a very real threat to the interests of this country.'

any loss is anticipated, in the other case a loss is not taken up until the year in which it is realized.¹

The question of interim accounts lies somewhat outside the scope of this paper. In response to demands in the financial Press a small number of United Kingdom companies now furnish quarterly or half-yearly figures, almost invariably 'subject to audit'. Obviously, the value of interim accounts varies largely as between one business and another according to its nature.

Notwithstanding the inevitable problems (and the inevitable exception)² the United Kingdom pays homage to astronomy and accepts the solar year as the appropriate interval at which to ascertain business profits. But, except in the case of businesses with a very rapid turnover, the profits of a single year may not be very informative until viewed as one of a series.

Ascertainment of Profits for Valuation Purposes

Indeed, the profits of a single year are seldom examined in isolation. The Companies Act, 1948, requires disclosure of the 'corresponding amounts' for the immediately preceding financial year of all items shown in the balance sheet and profit and loss account. For prospectus purposes the Act requires disclosure of the profits or losses in respect of each of the five financial years immediately preceding the issue of the prospectus and, in practice, the five years are usually increased to ten in order to meet Stock Exchange requirements.

For prospectus purposes profits are often compared in relation to fixed assets revalued on a replacement basis and on these occasions the English Institute finds itself obliged to depart from the theory of 'historic costs' and to recommend³ that the prospective investor should be acquainted with the excess of the future depreciation to be provided out of future

profits and be reminded that the tax collector will continue to base his allowance for depreciation on the historic cost.

Since the prospective investor examines a series of past years' profits as a guide to future maintainable revenue it is important that the series of figures should reflect the trend as accurately as possible. It follows that any exceptional or non-recurring debits or credits should be picked out and it is also necessary to ensure, so far as practicable, that the results of each year are arrived at on a consistent basis. Natural over-caution in the preparation of the original accounts will have largely eliminated itself over a ten-year period but some readjustments may be needed, as between one year and the next, in order to clarify the trend of results.

Ascertainment of Business Profits for Tax Purposes

It is self-evident that so long as accountants are satisfied to ascertain profits on a basis which admittedly contains an element of inflation it is illogical to expect the taxing authorities to accept some other basis designed to exclude the inflationary element.

The English, however, are respected for virtues other than logic and for some time past and for various reasons the Inland Revenue have given rather more generous allowances for depreciation on machinery and plant than the historic cost basis would warrant.

These allowances are determined by the Commissioners of Inland Revenue by reference to the original cost to the owner and having regard to the anticipated normal working life of machinery or plant of that class. For many years, and as now codified in Section 281 of the Income Tax Act, 1952, the annual allowance has been five-fourths of the percentage thus computed by the Commissioners. This pleasant but illogical arrangement operates in a minor way to accelerate depletion allowances.

A faster, but more erratic method of acceleration is the 'Initial Allowance' introduced in 1945 as an encouragement to industry to renew its capital assets after the ravages of war. The allowance, originally 20 per cent on cost, was increased to 40 per cent in 1949, was withdrawn altogether, owing to a financial crisis, in 1952, was restored at 20 per cent in 1953, was withdrawn again in 1954 when an investment allowance of 20 per cent took its place, and was restored, also at 20 per cent in 1956 when (subject to certain special cases) the short-lived investment allowance disappeared in the course of another financial crisis. Writing in the autumn of 1956 one hesitates to conjecture what the situation will be by the time we meet in Amsterdam in September 1957.

These arrangements raised some problems in business accounts from the point of view of relating the charge for tax to the disclosed profits of the year.

¹ Excerpt from an advertisement issued by Crowley, Russell & Co Ltd and published in *The Financial Times* dated May 9th, 1956:

'Valuation of Work in Progress. The value of the work in progress at the end of each financial year is arrived at by aggregating for the various contracts the costs of labour and materials, direct contract expenses, and either (a) the cost of plant purchased for the various contracts; or (b) in the case of plant not so purchased, the directors' valuation of plant transferred to these contracts, such valuation not being in excess of cost, and deducting therefrom in both cases the directors' valuation of plant withdrawn from these contracts.

'... The profit or loss on each contract is brought into account in the year in which the final price is substantially agreed.'

² Companies Act, 1948, Section 455 (1):

'... "financial year" means . . . the period in respect of which any profit and loss account of the body corporate laid before it in general meeting is made up, whether that period is a year or not'.

³ The Institute of Chartered Accountants in England and Wales, *Recommendations on Accounting Principles*, No. XIII, paragraphs 206 and 207.

An early tendency to equate the charge for depreciation to the aggregate of the Inland Revenue allowances foundered owing to the erratic course of the allowances and the most popular plan now is to suspend the benefit of the initial allowances as if they were (and in fact they are) a kind of temporary loan from the revenue, free of interest and repayable by annual instalments. The reserve representing the temporary loan will be found in many accounts described in some such words as 'Tax equalization reserve'.

The Inland Revenue have not, so far, responded to any suggestions for the adoption of LIFO in computing profits for tax purposes and indeed they have succeeded in getting the 'base stock' method of valuation rejected in the Court of Appeal to the detriment of those few stalwarts in the United Kingdom who still adopted this old-fashioned, but LIFO-like method and in the face of evidence given by a future President of the English Institute that he had himself given his unqualified audit certificate to accounts of cotton spinners using the base stock method.¹

A Royal Commission appointed by the Government to consider and report on the taxation of profits and income gave some thought to the method of valuing stock-in-trade and in its report, issued in 1955, suggested that the trader should have an option to value his stock on any one of a number of bases including one transported from North America by the Commission which seems to owe something to both the stock and LIFO methods.² These suggestions aroused some interest in professional circles, but it has not been the practice of the Government to pay much attention to reports by Royal Commissions on tax matters and there seems little prospect that these particular suggestions will be translated into legislation at an early date.

On the need for provision against contingencies the Inland Revenue tends to take a narrower view than business men and their accountants, preferring to await the actual expenditure before allowing the charge against taxable profits. Thus, provisions by a catering company against equipment shortages which could not meantime be replaced owing to war-time scarcity were rejected in the face of evidence by an eminent accountant that he would not have been prepared to certify the accounts as correct if the provisions had not been made.³ And a company operating a railway in Peru has recently lost its case relating to provisions made for anticipated compensation payable under Peruvian law to its employees upon the termination of their services.⁴

But the Inland Revenue is not always blind to

changing fashions⁵ and it is fair to say that in the United Kingdom, subject to exceptions such as I have indicated above which are not all unfavourable to the taxpayer, profits for tax purposes are not normally very different from the profits as ascertained in business accounts. If there is anything basically wrong with the methods by which we ascertain our business profits we cannot reasonably expect the Inland Revenue to pioneer the field of reform.

No doubt the real trouble with tax in the United Kingdom, which lies outside the scope of this paper, is that the percentage of profits taken is too high a burden to be indefinitely supported.

Summary

The main features of the ascertainment of profit in business may be summed up as follows:

- (1) The annual statement rendered to the proprietor by the steward whose duty it is to account for the possessions entrusted to him and for the fruits thereof.

This statement is normally prepared in the United Kingdom on the historic cost basis, a basis admittedly unsuitable for eyes other than those of the proprietor. Good stewards are cautious by nature but modern legislation has gone some way to obstruct the natural bias towards under-statement with results which are politically unfortunate. No attempt is made, in this short paper, either to apportion the blame or to suggest a solution.⁶

- (2) The series of annual statements collated, adjusted and re-interpreted as may be thought necessary in order to provide a guide to the valuation of the business.

Natural caution in the preparation of annual statements tends to eliminate itself over a period of years, but if the series of figures is to serve as an accurate guide some readjustment may be needed in order to clarify the trend.

- (3) The annual statement prepared for tax purposes.

In the United Kingdom the result does not normally differ very much from the result arrived at on the historic cost basis, and, when it does, any over- or under-assessment to tax in any one year tends to correct itself over a longer period.

By way of apology for this paper and, in particular, for the large number of notes, a final quotation is offered, again from *The Merchant of Venice*, Act III, Scene 2:

*'What damned error but some sober brow
Will bless it and approve it with a text.'*

¹ *Patrick v. Broadstone Mills Ltd* (1953).

² *Report of Royal Commission on the Taxation of Profits and Income*, Appendix II, page 477.

³ *Peter Merchant Ltd v. Stedeford* (1948).

⁴ *Southern Railway of Peru Ltd v. Owen* (1956).

⁵ The word 'horse', which appears in the Ninth Schedule of the Income Tax Act, 1952, is already deemed to include 'motor-car' and, according to an *obiter dictum* of the judge in the recent case of *Maclean v. Trembath*, should also include 'aeroplane'.

⁶ 'How long halt ye between two opinions?' - I Kings, xviii, 21.

Weekly Notes

National Taxation Conference at Torquay

Over 1,000 delegates, comprising members of the accountancy and legal professions, and executives in industry and commerce, are at present attending the Seventh National Taxation Conference organized by our contemporary *Taxation*, which opened at Torquay yesterday afternoon and continues until next Monday afternoon. The conference, as in previous years, is under the chairmanship of Mr Ronald Staples, founder and editor-in-chief of *Taxation*.

Five papers are being presented on various aspects of the law and practice of taxation, and time will be set aside after each address for questions. A mock appeal meeting is also being held when the 'Commissioners' will hear five appeals of a wide and general interest. The social activities will include a civic reception and dance to be given by the Mayor of Torquay, a cocktail party given by Mr Ronald Staples, and a golf competition. In addition, a special programme has been arranged for the ladies.

A report of the proceedings during the four days of the conference will be included in our next issue.

Income Tax and Claims for Damages

In future, persons claiming damages for loss of earnings, whether as a result of personal injuries or wrongful dismissal, will have to set out in their statements of claim the relevant particulars as to their other income and personal allowances so as to show how the damages claimed are to be reduced by reference to the saving in income tax, on the principle established by the House of Lords in *British Transport Commission v. Gourley* (34 A.T.C. 305). This is the effect of a Court of Appeal decision in *Phipps v. Orthodox Unit Trusts Ltd* (*The Times*, October 15th, 1957).

Plaintiff claimed that he had been wrongly dismissed in 1949 from his position as managing director of the defendant company and had thereby suffered damage in that he had lost remuneration since then averaging £10,000 per annum. On the pleadings the defendant asked for particulars of the alleged damage, stating whether the plaintiff had received any taxable income in any of the tax years from 1948-49 onwards and, if so, (i) the amount of such income from every source, and (ii) the amount of all the income tax and surtax assessments showing how these amounts were made up; and full particulars of any facts which entitled, or would have entitled, the plaintiff to tax allowances for the years in question. The Court held that these particulars were directly material and ought to be supplied in order that the defendant might know exactly what claim it had to meet. Their lordships expressed the hope, however, that where such particulars were required in other cases, the matter would be kept in check by limiting the particulars to what was reasonably

necessary. Parker, L.J., suggested that broad facts would be sufficient, such as 'The plaintiff is a married man; he is entitled to an allowance in respect of two children; his unearned income is £100'; and matters of that sort.

Life Assurance Statistics

The latest summary of statistics¹ compiled by the Life Offices' Association and the Associated Scottish Life Offices relating to the years 1952-56 records a continued growth in life and annuity funds. The ordinary life and annuity funds of the life offices amounted to £2,832 million at the end of 1956. The increase in these aggregate funds over the year was £205 million.

New ordinary premium income amounted to £74 million in 1956 (£67 million in 1955). These premiums secured sums assured of £1,250 million and annuities and pensions (mainly deferred pensions) of £100 million per annum. Total ordinary premium income in respect of business in force at the end of 1956 amounted to £358 million (£330 million in 1955) of which £141 million (£128 million) was attributable to staff pension and life assurance schemes.

At the end of 1956, some 2,700,000 employees were covered under staff pension and life assurance schemes sponsored by employers and underwritten by life offices. The Finance Act, 1956, enabled self-employed persons and those in non-pensionable employment to make provision for their old age by means of approved contracts under the same tax conditions as were already available to many employed persons. Figures relating to the last few months of 1956 when these contracts became available for the first time, show that some 22,000 contracts were effected involving a premium income of £3,300,000.

The following table, which is not in the booklet, shows the percentage of life offices' funds (ordinary and industrial branches taken together) invested in different classes of security at the end of 1956, together with the corresponding figures at the end of 1955 for comparison:

	1955 per cent	1956 per cent
Mortgages	14	15
British Government and British Commonwealth Government, Provincial and Municipal Stocks ..	33	30½
Debentures, Loan Stocks, Preference and Guaranteed Stocks and Shares ..	21½	21½
Ordinary Stocks and Shares ..	15½	16½
Real Property, Ground Rents and other Investments ..	16	16½

¹ *British Life Assurance Statistics (Ordinary Branch) 1952-56*, available on request from 'The Life Offices' Association, 33 King Street, London, EC2, or Associated Scottish Life Offices, 23 St Andrew Square, Edinburgh.

Key Meeting on the Free Trade Area

Discussions at ministerial level on the Free Trade Area opened this week in Paris. The ministers have had in front of them the reports on the subject prepared by working parties during the spring and summer. It is possible that the meeting will produce a negotiating committee but there is a good deal of diplomatic ground to cover before this can be brought about.

Opinion on the merits of a free trade area is still sharply divided both among the possible member-nations and also within the countries concerned. The French are known to be more interested in the European Economic Community set up under the Treaty of Rome which covers the six Messina powers than in extending the area of free trade to include Scandinavia, Switzerland and Britain. Opinion in favour of a free trade area is fairly strong in Germany, Holland and Italy. There are plenty of obstacles which can be placed in the way of successful negotiation by any interested party, among which agriculture is an outstanding example. Much play may yet be made of the inability of Continental countries to accept the British view that agricultural

products should be excluded from the proposed Free Trade Area.

Even within this country opinion is reserved about the merits of the scheme. Organized industry does not want a free trade area at any price and is insistent that adequate compensation should be made available for companies which are put out of business by the international specialization which would be likely to follow a free trade area. The Chancellor of the Exchequer and the Postmaster-General, in whose hands the British negotiations have been placed at the Paris meeting, left England in the middle of the week after a meeting with the T.U.C. whose members stressed the importance of protecting full employment. Nevertheless, the Government seems reasonably optimistic that some progress can be made. The first real test will be the British insistence on the exclusion of agriculture. If the parties concerned can overcome this difficulty by a certain amount of give and take without strict adherence to their initial positions in principle, this hurdle may well be surmounted. It seems unlikely, however, that progress can be other than slow over the period of negotiation.

Finance and Commerce

Uneasiness persists in the stock-markets on both sides of the Atlantic. The possibility of an even bigger missile development effort by the United States as a result of Russia's success has failed to obscure the economic signs of over-production both in materials and manufactured goods. On this side the prospective cut back in capital investment combined with the possibility of labour unrest when wage claims conflict with the Government's avowed intention of limiting the money supply, are the underlying uncertainties in a market already disturbed by Wall Street's weakness.

New Basis

This week's reprint gives the accounts of Davy & United Engineering Co Ltd. The company is a most important ancillary to heavy industry, having been developed for the construction of heavy steel rolling mills. Among the pictures which grace the report is one of the 42-inch mill built for the Velindre Works of the Steel Company of Wales Ltd, a great piece of machinery that rolls wide strip at 4,000 feet a minute.

This year's accounts are marked by a change in the accounting basis. Mr D. F. Campbell, the chairman, explains that many of the company's contracts may vary from £500,000 to £3 million with the machine requiring more than a year for manufacture. A further six months may elapse between the commencement and completion of delivery.

Previous practice was to bring profits on contracts into account only when delivery was completed and profits in any particular year therefore depended on

the number of major contracts wholly delivered during the year. As Mr Campbell says, on that basis, profits can vary greatly according to the accident of final delivery.

'Work in Progress'

Exactly what basis has been adopted is not stated, but the profit of £641,642 (previous year £673,013) is shown to include £207,388 arising from the change. This amount again appears as an element in the work in progress total.

There is an exceptional increase in the work in progress at £7,784,270 as compared with £4,056,476, due to two main reasons. A number of major contracts were substantially but not completely delivered at balance sheet date. In addition, relatively large advances had been made to sub-contractors and entered under work in progress. The large increase in the item itself has, to a material extent, it is pointed out, been offset by amounts which the company has received from customers on account of work in progress and by way of payments in advance. If the old accounting basis had been continued, it is added, the effect would have been to understate materially the profit of the year under review and to overstate the profit of the following year.

An indication of the effect of the old system is seen in the twenty year financial record which accompanies the accounts. Profits before tax in 1949 were £150,871 but in 1950 £600,753. The divergence in later years is less marked but still evident.

Referring to plans for further expansion, Mr

Campbell points out that the considerable additional investment involved presupposes that the steel industry will continue to buy its machinery at home and will not resort to large-scale imports.

There is a tendency in the steel industry to promulgate development programmes by five-year plans which, he says, may result in heavy ordering in the early part of the period. It is clearly in the national interest, says Mr Campbell, that any consequent bunching of orders should be avoided; otherwise extended deliveries may become necessary and disappointed customers may seek to import plant involving currency difficulties and political risks.

Double Tax Relief

A new provisional basis for the calculation of additional income due by reason of double taxation relief has been agreed between The Tor Investment Trust Ltd and the Inland Revenue.

Final settlement has yet to be arrived at, but as a result of negotiations which have been proceeding with the Inland Revenue for a considerable time past in regard to additional income due, agreement has 'almost been reached' for a further period of about four years. In consequence, it has become apparent that the company's additional income by reason of double taxation relief for previous years will prove

to be considerably in excess of the amounts already brought to credit in the profit and loss accounts for those years, the latter amounts having been calculated on the provisional basis originally agreed with the Revenue for interim repayments.

The directors say they do not feel justified at the moment in bringing any further credit for previous years into the profit and loss account pending a final settlement which it is hoped will not be long delayed. The additional income due to the company for the year under review, however, has been calculated on the new basis now agreed with the Revenue.

Gross income from investments of £151,413 against £133,297 is shown to include £23,989 against £10,896 for additional income.

Money Market

Applications for Treasury bills totalled £416,370,000 on October 11th, and with a bid of £98 7s the market's allotment was 41 per cent. The offer totalled £260 million and the average rate was £6 12s 0.23d per cent. This week's offer is £270 million. The decision of the Treasury to repay the maturing £503 million of Serial Funding loan was broadly in line with money market expectations. Little of the stock is, however, held in the market. The £100 million or so not in Government hands is largely held industrially.

DAVY AND UNITED ENGINEERING COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the Year ended 31st March, 1957

	Current Year £	Previous Year £
PROFIT Including £207,388 arising from a change in the basis of accounting (Note 8 and Directors' Report*)		
before deducting the items mentioned below	641,642	673,013
Depreciation and amounts written off Fixed Assets	137,742	115,992
Auditors' Remuneration	2,200	1,575
Interest on Loans	41,329	4,179
Additional Provision for Contingent Claims	—	104,499
	181,271	226,245
Add: Provision for Contingent Claims no longer required	460,371	446,768
	3,289	—
PROFIT SUBJECT TO TAXATION	463,660	446,768
Deduct: Taxation (estimated) on profit for the year to 31st March, 1957:		
Profits Tax	60,850	42,000
Income Tax	161,818	172,067
	222,668	214,067
PROFIT AFTER TAXATION	240,992	232,701
Retained by Parent Company	220,992	212,701
Retained by Subsidiary Companies	20,000	20,000
Deduct: Proposed appropriation—Parent Company—		
Dividend of 15 per cent per annum for the year ended 31st March, 1957, less Income Tax	97,648	81,373
	143,344	151,328
Add:		
Balance at 1st April, 1956	133,604	117,570
Tax provisions of previous years no longer required	4,526	6,706
Group Income Tax Initial Allowances Equalization Reserve	—	8,000
	138,130	132,276
	281,474	283,604
Deduct: Appropriations—		
Plant and Machinery Replacement Reserve:		
Parent Company	30,000	30,000
Subsidiary Companies	20,000	20,000
	50,000	50,000
Group Income Tax Initial Allowances Equalization Reserve	20,000	—
General Reserve	100,000	100,000
	170,000	150,000
BALANCE carried to Balance Sheet (Revenue Reserves—Note 6)	£111,474	£133,604

[* Directors' Report not reproduced. — Editor.]

ASSETS				CAPITAL, RESERVES AND LOANS			
	31st March, 1957		31st March, 1956		31st March, 1957		31st March, 1956
	£	£	£	£	£	£	£
FIXED ASSETS—(Note 3)—							
Land and Buildings	1,022,047		742,721				
Plant, Machinery and Auxiliary Equipment	1,175,935		993,785				
Furniture and Vehicles	118,391		89,397				
	2,316,373		1,825,903		1,132,146		1,132,146
NET CURRENT ASSETS—							
Current Assets:							
Work-in-Progress, including £207,388 arising from a change in the basis of accounting (Note 8 and Directors' Report)*; and Stocks	7,784,270						305,951
Less: Amounts received on account of Work-in-Progress and advance payments on contracts	5,687,756				299,292		1,555,148
	2,096,514				3,134,457		2,993,245
Debtors and Prepayments	1,163,572						
Sinking Fund Policy	1,330						
Bank Deposits as guarantees of performance of contracts	—						
Cash at Bank and In hand	285,254				171,376		166,300
	3,546,670		3,512,903		3,305,833		3,159,545
Deduct:							
Current Liabilities and Provision:							
Current Liabilities:							
Creditors and Accrued Charges	1,153,132		938,465				
Bank Overdrafts	344,117		157,035				
Proposed Dividend, less Income Tax	97,648		81,373				
Taxation (including Income Tax 1956-57)	86,139		75,763				
	1,681,036		1,252,636				
Provision for Contingent Claims	116,174		226,625				
	1,797,210		1,479,261				
	1,749,460		2,033,642				

DAVY AND UNITED ENGINEERING COMPANY LIMITED AND SUBSIDIARY COMPANIES

Notes on Accounts for the Year ended 31st March, 1957

1. CAPITAL EXPENDITURE COMMITMENTS not provided for. In these accounts are estimated at £1,106,000 for the Group and £845,000 for the Parent Company.		4. CONTINGENT LIABILITIES. The Parent Company has guaranteed the bank overdraft of a Subsidiary Company. At 31st March, 1957, this overdraft amounted to £34,515.	
2. DIRECTORS' REMUNERATION. Emoluments of Directors of Davy and United Engineering Company Limited are:—		5. CAPITAL RESERVES.	
In respect of:		Reserve arising on Consolidation	
Services as Directors	Year to 31st March, 1957	£	£
Management Services including contributions paid under Pension Scheme	2,200	169,395	169,395
	33,554	4,946	4,946
	£35,754	74,796	37,536
	£30,197	2,037	1,426
		76,833	38,962
		3,750	3,750
		73,083	35,212
		£299,292	£199,661
3. FIXED ASSETS. No depreciation is provided on Land, and the replacement of Auxiliary Equipment of Machine Tools is provided by way of renewals charged to revenue.		Less: Expenses of Increase of Authorized Capital	
DAVY AND UNITED ENGINEERING COMPANY LIMITED BALANCE SHEET		6. REVENUE RESERVES.	
Land and Buildings:		General Reserve	
As valued by officials of the Company at 1st April, 1935, with additions at cost	31st March, 1957	£	£
Less: Depreciation and amounts written off since 1st April, 1935	806,521	900,000	900,000
	146,754	550,000	360,000
	659,767	119,000	119,000
		16,778	16,778
		—	—
		16,778	—
		5,767	—
		111,474	111,474
		£1,703,019	£1,507,252
Plant, Machinery and Auxiliary Equipment:		Group Income Tax Initial Allowances Equalization Reserve, being the estimated income tax relief of the Group at 31st March, 1957, on initial allowances on capital expenditure up to 31st March, 1957	
As valued by officials of the Company at 1st April, 1935, with additions at cost	31st March, 1957	£	£
Less: Depreciation and amounts written off since 1st April, 1935	1,033,533	900,000	900,000
	348,992	550,000	360,000
	684,541	119,000	119,000
		16,778	16,778
		—	—
		16,778	—
		5,767	—
		111,474	111,474
		£1,703,019	£1,507,252
Furniture and Vehicles:		General Reserve in Subsidiary Company	
As valued by officials of the Company at 1st April, 1935, with additions at cost	31st March, 1957	£	£
Less: Depreciation and amounts written off since 1st April, 1935	149,429	900,000	900,000
	57,836	550,000	360,000
	91,593	119,000	119,000
	£1,435,901	16,778	16,778
		—	—
		16,778	—
		5,767	—
		111,474	111,474
		£1,703,019	£1,507,252
Land and Buildings:		Profit and Loss Account	
At cost: or at valuation or book value at 1st April, 1935	31st March, 1957	£	£
Less: Depreciation and amounts written off since 1st April, 1935	1,239,111	900,000	900,000
	217,064	550,000	360,000
	1,022,047	119,000	119,000
		16,778	16,778
		—	—
		16,778	—
		5,767	—
		111,474	111,474
		£1,703,019	£1,507,252
Plant, Machinery and Auxiliary Equipment:		Loan Stock	
At cost: or at valuation or book value at 1st April, 1935	31st March, 1957	£	£
Less: Depreciation and amounts written off since 1st April, 1935	1,909,699	900,000	900,000
	733,764	550,000	360,000
	1,175,935	119,000	119,000
		16,778	16,778
		—	—
		16,778	—
		5,767	—
		111,474	111,474
		£1,703,019	£1,507,252
Furniture and Vehicles:		Change in the Basis of Accounting	
At cost: or at valuation or book value at 1st April, 1935	31st March, 1957	£	£
Less: Depreciation and amounts written off since 1st April, 1935	191,423	900,000	900,000
	73,032	550,000	360,000
	118,391	119,000	119,000
	£2,316,373	16,778	16,778
		—	—
		16,778	—
		5,767	—
		111,474	111,474
		£1,703,019	£1,507,252

7. LOAN STOCK. The Loan Stock is repayable at the rate of £20,000 a year for 14 years from 31st March, 1962, to 31st March, 1976, with a final payment of £420,000 in the year to 31st March, 1976. The Parent Company has the option to repay any time after 31st March, 1971, at £101 10s 0d per £100 of Stock.

8. CHANGE IN THE BASIS OF ACCOUNTING. The profit of the Group for the year includes the sum of £207,388 which arises from a change in the basis of accounting. This amount is included in the Work-in-Progress of £7,784,270 in the Consolidated Balance Sheet. In the Parent Company's Balance Sheet the amount of Work-in-Progress of £6,867,751 includes £185,494 arising from this change in the basis of accounting.

9. FOREIGN CURRENCIES. These have been converted at the rates ruling at 31st March, 1957.

Current Law

Proprietary Interest of Director

The plaintiff in *Hayes v. Bristol Plant Hire Ltd and Others* ([1957] 1 All E.R. 685) was a director of the defendant company and was excluded from the board by a resolution passed by three of the other directors (who were also defendants in the action). The plaintiff sought (*inter alia*) a declaration that the resolution was invalid, and consequential relief by injunction. The defendants objected, as a preliminary point, that the plaintiff had no such proprietary interest in the company as entitled him to equitable relief by declaration and injunction.

Wynn-Parry, J., rejected this preliminary objection, because, although the articles of association of the company did not require directors to have a share qualification and did not confer on them any direct right to a stipulated amount of remuneration in any year, it was provided (by article 26) that, subject to the terms of any agreement between them and the company, the directors should be paid out of the company's funds, by way of remuneration for their services, such sums as the company, in general meeting, might from time to time prescribe, while in fact the plaintiff held 1,000 shares of £1 each out of an issued capital of 3,400 shares. Because he was a shareholder, and because article 26 gave him more than a mere *spes successionis*, he had a sufficient proprietary interest. (His lordship proceeded to hear the action, which is, however, not reported, save on the preliminary point.)

Increase of Knowledge not Charitable

It is one of the many peculiarities of the law of charity that although a trust for the advancement of education (provided that there is the necessary element of public benefit) is charitable, one merely for the increase of knowledge, not combined with teaching or education, is not: but such a trust may be upheld under the residual head of charitable trusts (trusts, other than those for the relief of poverty and the advancement of education and religion, beneficial to the community) if it can be shown that the knowledge sought would in fact confer a public benefit.

This appears from *In re Shaw, Public Trustee v. Day and Others* ([1957] 1 All E.R. 745) in which Harman, J., considered whether effect could be given to the directions contained in the will of the late George Bernard Shaw for investigations into the possibility of reforming the English alphabet. His lordship held that the trust was neither educational, because there was no element of teaching, nor charitable under the residual head, since it could not be shown that the public would benefit from the research envisaged. Nor could the trust be supported otherwise than on the ground of charity, because it was for the benefit, not of individuals, but of objects,

and such a trust cannot, unless for charitable purposes, be upheld, because the Court cannot control it. Furthermore, it was not possible to validate the trust by treating it as a power. Accordingly, the alphabet trusts failed. Their author in his will had foreseen the possibility of their failure 'through judicial decision'. That they failed, said Harman, J., was

'... not the fault of the law, but of the testator, who failed almost for the first time in his life to grasp the problem or to make up his mind what he wanted.'

Winding-up Petition by Judgment Creditor: Costs

A short but important point of winding-up practice was decided by Wynn-Parry, J., in *Re R. W. Sharman Ltd* ([1957] 1 All E.R. 737). A judgment creditor who alleged that the company was insolvent and unable to pay its debt petitioned that it be wound up by the Court. The petition was opposed by a majority of the creditors and the petitioner recognized that the Court must accede to the wishes of the majority and dismiss the petition, so that the only question was that of costs.

In *Re British Electric Street Tramways* ([1903] 1 Ch. 725) Buckley, J., had laid it down that when a petitioner for a winding-up elected at the hearing to withdraw his petition he would be ordered to pay the costs of those who had given notice within the specified time of their intention to appear, the basis of that decision being that the Court had no opportunity of looking at the matter on the merits and, therefore, no material on which to exercise its discretion as to costs. Wynn-Parry, J., distinguished that case in the case before him because in the case before him it could not be disputed that the petitioner was, *vis-à-vis* the company, entitled *ex debito justitiae* to an order and was only deprived of what would otherwise be its right by the opposition of other creditors, and accordingly he made no order as to costs.

Unit Trusts and Accumulation

In *Re A.E.G. Unit Trust (Managers) Ltd's deed, Midland Bank Executor and Trustee Co Ltd v. The Company* ([1957] 2 All E.R. 506), Wynn-Parry, J., held valid a provision for accumulation in a deed creating a unit trust scheme. His lordship held that a unit trust is not within the mischief which Section 164 (1) of the Law of Property Act, 1925, which prohibits the accumulation of income for excessive periods, is intended to prevent. His lordship pointed out that it was open to the whole of the certificate holders under the trust to require it to be terminated or altered in a specific respect at any time, in which case effect would have to be given to their requirements.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Clients' Unlawful Acts'

SIR, - Your leading article on 'Clients' Unlawful Acts' in your issue of October 12th, refers to the 'criminal law of the United Kingdom', and to 'three broad divisions of indictable offences - treason, felonies and misdemeanours'. You were, I am sure, intending to refer to 'England and Wales' rather than to 'the United Kingdom', because Scots criminal law is very different from English criminal law. For example, the words 'felonies and misdemeanours' are not apt as regards Scots law and the English statutory definitions of such things as larceny, embezzlement, receiving stolen goods and forgery are not applicable in Scotland.

The most interesting statement by the Council of The Institute of Chartered Accountants in England and Wales which you publish in your issue of October 12th is, naturally, directed to the position in English law and would require numerous modifications if one were to seek to apply it to Scots law.

Yours faithfully,
E. H. V. McDOUGALL,
Secretary.

THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF SCOTLAND.
Edinburgh.

Training for the Profession

SIR, - I am largely, if not entirely, impelled to comment upon Mr Kenneth Most's letter in your issue of October 5th by the feeling that in so doing I am voicing the opinion of a not inconsiderable number of those who are actively engaged in the training of entrants to the accountancy profession.

Mr Most's letter propounds almost entirely the theory that training must essentially be by way of theoretical teaching, preferably largely oral, supplemented, at the right time and to the right extent, by practical work so devised as to avoid any risk that 'harmful habits may be ineradicably acquired'.

The present 'faulty' system Mr Most attributes to having 'no director of education, no schools, no inspection and no provision for up-grading the product after qualification'. With this apparently should be coupled some measure of 'research into students' achievements after graduation'. One is led to wonder whether it would not be of value, if it only were practicable, to conduct a research into the ineradicable acquisition of harmful habits as resulting from practical work and from theoretical study respectively. As the holder of views which differ very greatly from those of Mr Most, I should not fear the outcome of such a research.

Yours faithfully,
H. O. H. COULSON.
London, EC2.

Dispensing with Receipts

SIR, - I would like to express my agreement with the letters from Mr H. F. Joyce (September 21st issue) and Mr O. C. I. Spicer (October 5th issue). I support the suggestion that it is worth some effort at this stage to get uniformity. I feel that many firms will not make any effort to take advantage of the provisions of the new Act. Out of over 3,000 suppliers on our books, including many of the largest manufacturers in the textile trade, we have to date heard from a mere dozen. We are therefore in addition to approaching our customers, writing to every account on our bought ledger suggesting that receipts for our cheques be dispensed with. If all 'expense-conscious' companies would make a similar effort, I am certain that the effect would be to bring most firms into line.

Yours faithfully,
C. H. R. FANCOTE,
Secretary,
BIRMINGHAM. BELL & NICOLSON LTD.

Finance for Family Businesses

SIR, - I would like to congratulate Mr English most cordially on his paper reproduced in your issues of August 31st and September 7th.

I personally have learnt a very great deal from this paper, and in these days when, except for a few specialists, it is extremely difficult for the average accountant to keep up with such complex subjects, I feel that *The Accountant* is fulfilling a very real need in publishing it, and hope that you will include articles on related subjects at frequent intervals.

I have, however, two minor queries that perhaps Mr English or one of your more experienced readers could clear up. Firstly, in paragraph 32, dealing with buying and leasing back property arrangements between private companies and institutional investors exempt from income tax, Mr English stated that a prerequisite element is a lease for at least fifty years. I am not clear why this is a prerequisite and why a lease for a lesser number of years would not be equally suitable.

Secondly, in paragraph 81, Mr English states:

'As the law stands at present, a bonus issue made by a United Kingdom company is not regarded as taxable income in the hands of the recipient shareholder.'

I am not clear what is the significance of the words 'made by a United Kingdom company'. Surely bonus issues made by an overseas company also are not taxable in the hands of a recipient United Kingdom shareholder!

I am aware of the position brought about by

C.I.R. v. Reid's Trustees [1949] whereby a dividend from overseas, whether expressed as a capital dividend or not, is taxable in the hands of the recipient United Kingdom shareholder, but I was not aware that there had been any extension of this principle to include bonus issues.

Yours faithfully,
C. D. JACKSON, A.C.A.

Port of Spain, Trinidad, B.W.I.

[Mr A. R. English writes: When suggesting a lease of fifty years, I had in mind the desire of most institutional investors, if interest rates are favourable, for long-term investments. There is, of course, the further attraction that such leases are 'long term' for tax purposes, with a consequential simplification of the income tax position. Although the principles of the taxation of bonus issues are well established in *Blott's* case, the decision in *Aykroyd v. C.I.R.* stands as a warning that it may be possible to find distinguishing features in the circumstances of various bonus issues. Another aspect which should not be overlooked is the taxation liabilities which can arise in certain foreign

countries, and here I have in mind Australia and the United States of America, from the making of bonus issues in such countries.]

'An Insurance Broker's View of CARBS'

SIR, - In the article headed 'An insurance broker's view of CARBS' in your issue of September 28th, it is stated, at page 365, that:

'Any return of premium on death would be aggregated with other assets for estate duty purposes, although if the return be applied to secure a widow's pension, estate duty would be avoided under present legislation.'

I should be glad to learn whether this is correct or whether in fact under present legislation the only effect of applying the lump sum to a widow's pension means that the lump sum is not aggregated.

Yours faithfully,

H. MAXWELL PEPPER.

Walsall.

[The authors write: 'Your correspondent is quite correct as only *aggregation* for estate duty is avoided. We apologize for this omission.]

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Countess of Kenmare v. C.I.R.

In the House of Lords - July 25th, 1957
(Before Viscount SIMONDS, Lord REID, Lord COHEN and Lord SOMERVELL of HARROW)

Surtax - Income from settlement - Settlor resident abroad - Settlement made abroad - Power to trustees to transfer capital to settlor from time to time - Whether settlement revocable - Whether settlement subject to United Kingdom law - Finance Act, 1922, Section 20 (1) (a) - Finance Act, 1938, Sections 38 (2), 41 (4), Schedule III.

The appellant, who was not resident or ordinarily resident in the United Kingdom, made in 1947 a settlement governed by the laws of Bermuda. The settlement was in favour of the appellant's three children, all of whom were adults, but there was a provision that the trustees could in their absolute discretion pay the income (or part thereof) to the appellant during her life. There was a further provision enabling the trustees in their discretion to declare that any part of the trust fund not exceeding £60,000, in any period of three years, should be held in trust for the appellant absolutely, and any deficiency of one such period could be carried forward to the following period. The trust fund was invested in the United Kingdom.

It was contended on behalf of the appellant that the provisions of the settlement relating to the sums of £60,000 did not constitute a provision for the revocation or determination of the settlement, and that there was no authority for the imposing of surtax on a non-resident settlor in respect of income from a

settlement made abroad and governed by the law of a place abroad. The Special Commissioners decided in favour of the appellant on the second contention.

Held (affirming the decision of the Court of Appeal) that the settlement was revocable or determinable within Section 38 (2), and that the income thereof was taxable in the United Kingdom.

C.I.R. v. Wood Brothers (Birkenhead) Ltd

In the High Court of Justice (Chancery Division)
July 16th, 1957

(Before Mr Justice HARMAN)

Surtax - Undistributed income of company - Actual income - Whether including balancing allowance - Income Tax Act, 1952, Sections 245, 253, 292, 301, 323 (4).

The company, which ceased trading in 1951, sold its plant and machinery and went into liquidation on April 16th, 1952. At that date the last made-up accounts were those for the period ended April 30th, 1950. A balancing charge was made on the company in respect of the sale of its plant and machinery.

A direction was made under Sections 245 and 253 of the Income Tax Act, 1952, in respect of the undistributed income of the company, and in computing the amount of the actual income the Inland Revenue sought to include the amount of the balancing charge. The Special Commissioners decided that that was not an item to be included in computing the company's actual income.

Held, that the Special Commissioners' decision was correct.

Carlish v. C.I.R.

In the High Court of Justice (Chancery Division)
July 12th, 1957

(Before Mr Justice HARMAN)

Surtax - Annuity - Life interest in residuary estate - Non-apportionment of annuity between capital and income of residue - Income-producing assets in lieu of payments from capital - Non-payment of annuity in later years - Appellant receiving whole of residuary income - Computation of total income - Finance Act, 1938, Section 30.

On November 28th, 1930, the appellant's husband executed a deed of settlement under which the appellant was entitled after his death to an annuity of £2,500 a year, as long as she remained his widow, and a further discretionary amount up to £500 was payable for the maintenance and support of her son until he attained 28, which he did in 1950. The annuities were made a charge on the husband's residuary estate. The appellant's husband made a will bequeathing his residue to a trustee on trust for sale with power to postpone the sale. By clauses 4 and 5 of the will the net residuary income of the unconverted residuary assets was, after payment of administration expenses, to be paid to the appellant during her life or until remarriage. A bank was both the trustee of the settlement and the executor and trustee of the will.

The appellant's husband died on February 20th, 1931, and between that date and February 20th, 1941, the bank paid the whole of the two annuities out of the taxed income of the estate, and credited the appellant as life-tenant of the residue with the balance of that income. In April 1937, an order was made by the Court, declaring (in effect) that the two annuities should be apportioned between the capital and income of the residuary estate in accordance with the rule in *In re Perkins*, but until 1941 the bank did not alter its method of book-keeping. As a result of this order the appellant became entitled to have £17,930 17s 9d transferred from capital to income and paid to her in respect of the period from February 20th, 1931 to February 20th, 1938. On September 19th, 1938, an agreement was made between the appellant and the bank whereby it was agreed, with the consent of the ultimate residuary legatee, that in lieu of receiving the £17,930 17s 9d certain freehold and leasehold property forming part of her husband's estate should on her request be conveyed to her in satisfaction of her rights up to that date. Clause 3 of the agreement provided that until conveyance, the bank should hold the properties in trust for the appellant, and that remained the position during the relevant period. The residue of the estate was ascertained at the end of December 1938. Further transfers from capital to income were made for subsequent periods, and at February 20th, 1951, the total after subtracting the £17,930 17s 9d was £9,565 19s 11d. On March 13th, 1954, £1,000 was paid to the appellant, and on

February 9th, 1955, a further £2,000 under an order of the Court.

During the period from February 20th, 1931, to February 20th, 1941, the residuary income, after deduction of the net amounts of the two annuities and expenses, was paid into the appellant's private bank account or otherwise applied at her direction. The bank, as executor and trustee of the will, transferred the net amounts of the annuities from the residuary estate account to a settlement account, and in its capacity as the settlement trustee, paid on a standing order every month one-twelfth of the annuity, less tax, into the appellant's bank account. On February 20th, 1941, payment of the appellant's annuity as such ceased, and thereafter the bank paid over to her the whole of the residuary income less the sums due in respect of the son's annuity. But there was no evidence that she had surrendered her right to the payment of the annuity after that date.

Assessments to surtax were made on the appellant for 1937-38 to 1950-51 and for 1952-53.

The appellant contended (1) that the administration of the residuary estate was not complete until her annuity ceased; (2) that she was liable to surtax only in respect of sums actually received by her, and that these sums could not be ascertained, because proper accounts had not been submitted by the bank; (3) that she was not liable to surtax on the portion of her annuity paid out of capital. It was contended for the respondents (1) that after the date of the ascertainment of the residue the appellant was assessable on the income arising from her husband's residuary estate, less that part of the annuities that was properly paid out of income, and less charges, irrespective of receipt by her; (2) that for the period from April 6th, 1938, to the date of the ascertainment of the residue, she was assessable on the residuary income in accordance with Section 30 of the Finance Act, 1938; (3) that the appellant was also assessable on the amount of the annuity properly payable out of income for 1938-39 to 1950-51; (4) that as the annuity was paid in full down to February 20th, 1941, she was also assessable on that part of the annuity paid out of capital; (5) that the assessments for 1938-39 to 1950-51 should be confirmed in the amounts shown in a schedule submitted by the respondents. It was agreed that the first of the assessments under appeal was not made in time, and it was discharged.

The Special Commissioners decided (1) that for the period from April 6th, 1938, to December 31st, 1938, when the residue was ascertained, the appellant's total income should be calculated in accordance with Section 30 of the Finance Act, 1938; (2) for the period from January 1st, 1939, to April 5th, 1941, notwithstanding the Court's order the appellant's annuity had been paid out of income and the capital portion of the annuity, which had been credited to the appellant in the trustee's accounts, must be treated as her income for surtax purposes; (3) that for the years 1941-42 to 1950-51 the income arising to the trustee of the will was income of the appellant;

(4) that the amounts of the assessments for the years stated at (3) above should be the amounts shown in the respondents' schedules. The Special Commissioners computed the amounts of the assessments for 1938-39 to 1940-41, and adjourned the consideration

of the assessment for 1952-53 for agreement between the parties in the light of their decision for earlier years.

Held, that the Special Commissioners' decision was correct.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

RECOMMENDATIONS ON ACCOUNTING PRINCIPLES

XVII. Events Occurring after the Balance Sheet Date

While it is generally recognized that the fundamental purpose of annual accounts is to show a true and fair view of the state of affairs as on the balance sheet date and of the profit or loss for the year then ended, questions sometimes arise as to the extent to which events occurring after the balance sheet date should be taken into account in preparing those accounts. The Council of The Institute of Chartered Accountants in England and Wales makes the following recommendation to members of the Institute on this matter. The form and contents of accounts submitted to shareholders are (subject to compliance with the Companies Act) matters within the discretion of directors, but it is hoped that this recommendation will be helpful to members in advising, in appropriate cases, as to what is regarded as the best practice.

Events which should be Dealt with in Accounts

(365) In British practice, rendered obligatory by the Eighth Schedule to the Companies Act, 1948, certain events which take place after the balance sheet date, such as dividend proposals and other appropriations of profits, are shown in the accounts to assist the shareholders in making informed decisions, for example on dividend policy.

(366) Accounts must often include estimated figures, for example of liabilities of uncertain amount, while for some assets, usually current assets, it is necessary to arrive at an opinion as to their realizable value in the ordinary course of business. Such estimates and opinions relate to conditions as on the balance sheet date but events occurring after that date may assist in the assessment of the position as it existed on that date. The following paragraphs deal with the more usual items.

Liabilities

(367) Where a liability, or a contingent liability, existed on the balance sheet date it cannot be ignored in the accounts merely because the amount was unknown or uncertain on that date. An estimate is normally needed and for this purpose guidance may be obtained from developments which have taken place since the balance sheet date.

(368) Where there have been changes in taxation since the balance sheet date, which affect the amounts to be set aside for taxation on the basis of the profits up to that date, it will be necessary to take the new taxation position into account if significant figures are to be shown in respect of the charge for profits tax and the amount set aside for income tax.

(369) Except as a guide in making such estimates,

events occurring after the balance sheet date are not relevant to the statement of liabilities. The discharge of an existing liability or the creation of a new liability does not enter into the true and fair presentation of the position as it existed on the date of the balance sheet.

Fixed Assets

(370) In general the balance sheet statement of fixed assets as on the balance sheet date will remain unaffected by events occurring after that date. The disposal or destruction of assets or the acquisition of new assets are not relevant to the position as it then existed. They are later happenings which fall to be dealt with in the next period together with their related matters such as the receipt of sale proceeds, the collection of insurance claims, or the financing of new acquisitions.

(371) Subsequent events may however be of assistance in deciding the amount to be included in the balance sheet where the amount was in doubt on the balance sheet date, for example, where an asset has been acquired and the purchase consideration had still to be ascertained at that date although it became settled later.

Debtors

(372) Some of the debts owing to a business on the balance sheet date may have to be estimated because the amounts thereof had not been agreed on that date. Guidance may be obtained from developments after the balance sheet date. The more usual problem in relation to debtors is that of deciding the extent to which the amounts owing by them should be regarded as realizable. Normal accounting practice is to estimate, by reference to all the available information, including that relating to events

occurring after the balance sheet date, the extent to which it may be necessary to recognize that on the balance sheet date the debts had a realizable value in the ordinary course of business less than the amount at which they were carried in the books and to make provision accordingly.

Stock-in-trade

(373) Stock-in-trade is held for realization in the ordinary course of business and is therefore normally upheld in the balance sheet at the lower of cost or market value. Hence an estimate of market value is required as on the balance sheet date, in order to decide whether a deduction should be made from the cost of stock because on the balance sheet date it had a market value lower than cost. Normal accounting practice is to make this estimate by reference to all the available information, including changes in selling prices since the balance sheet date, so far as the information is of assistance in determining the market value of the stock in the ordinary course of business on the balance sheet date.

(374) In certain types of business, such as tea and rubber producing companies and some mining companies, it is normal practice to bring stock into the balance sheet at the price subsequently realized less the selling costs. This procedure has the advantage in businesses of this kind that the produce of the year is related to the eventual proceeds of disposal. The fact that the procedure involves a confusion of dates (in that it brings into account profit which had not been realized on the balance sheet date) is offset by the fact that it results in a more understandable presentation of the affairs of this particular type of business so long as the accounts indicate clearly the basis adopted.

Investments

(375) Investments held as current assets are normally viewed as being capable of realization on the balance sheet date. Subsequent changes in market value are therefore not normally relevant for balance sheet purposes.

Foreign exchange

(376) Where rates of exchange have altered after the balance sheet date the alterations would normally be disregarded unless the rates of exchange on the balance sheet date were not realistic and the amounts affected are material.

Events which may need to be Disclosed otherwise than in Accounts

(377) An event occurring after the balance sheet date may sometimes affect materially the solvency of the undertaking, or otherwise be of great importance to shareholders, although the event is not relevant to a fair view of the position as on the balance sheet date or of the result for the year then ended. Examples of such events are the disposal of a substantial part of the undertaking or a profit or loss, whether of a capital or revenue nature, having

a significant effect on the financial resources of the business.

(378) Such events are changes from the facts as they existed on the balance sheet date and to give effect to them in the accounts would be to attempt to present a state of affairs as on some unspecified later date. The function of a balance sheet is to set out the position as on a particular date, whereas the business to which it relates is normally in a constant state of movement. This limitation of the function of the balance sheet cannot be overcome by attempting to use different dates for different items, nor by endeavouring to show in accounts for a period the effects of events which occur after the close of that period. An attempt to do so would not only disregard the purpose of the balance sheet but would be impracticable, involving, as it would, a last minute re-examination of every item in the balance sheet in order to ensure that all material changes were effected.

(379) As events of the character referred to in paragraph 377 do not relate to the period ending on the balance sheet date they ought not normally to be reflected in the accounts for that period. Because of their great importance, however, they may need to be brought to the notice of the shareholders in some other way. Unless this is done shareholders may be prevented from making informed decisions on matters with which they are concerned. Sometimes the information will have been communicated to the shareholders before the issue of the annual accounts; in other cases a suitable reference will be made in the directors' report or chairman's statement accompanying the accounts. The method of communicating such information and the decision as to when it should be done are matters for the directors.

Recommendation

(380) Events which, at the time of preparing annual accounts, are known to have occurred after the balance sheet date, should not normally be taken into account in preparing accounts unless:

- (a) they assist in forming an opinion as to the amount properly attributable, in the conditions existing on the balance sheet date, to any item the amount of which was subject to uncertainty on that date; or
- (b) they arise from legislation affecting items in the accounts, for example changes in taxation, or are required by law to be shown in the accounts, for example appropriations and proposed appropriations of profit.

(381) The foregoing recommendation concerns the extent to which events occurring after the balance sheet date need to be dealt with in the accounts for the period ended on that date but events which are properly excluded from those accounts may, nevertheless, be of such importance that they need to be disclosed to shareholders through some other medium.

Moorgate Place,
London, EC2.

October 18th, 1957.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

Statement on Cheques Act, 1957

In recent issues we reproduced the statements issued by the Committee of London Clearing Bankers, the Council of The Institute of Chartered Accountants in England and Wales and the Council of The Institute of Chartered Accountants of Scotland dealing with the changes in endorsement procedure under the Cheques Act, 1957. We now reproduce a similar statement which has been issued by the Council of The Association of Certified and Corporate Accountants for the guidance of their members.

(1) The principal object of the Cheques Act, 1957, which comes into operation on October 17th, 1957, is to save the considerable time which at present has to be spent in making and examining endorsements on cheques which are paid, without negotiation, into the account of the payee.

(2) The terms of Section 3 of the Act also give impetus to the very much wider question of discarding, as far as possible, the issue of receipts for payments made by cheque. This section is as follows:

'An unendorsed cheque which appears to have been paid by the banker on whom it is drawn is evidence of the receipt by the payee of the sum payable by the cheque.'

(3) The clearing banks hope that receipt forms on cheques will very largely disappear and it is understood that they have received an encouraging response. Customers who desire to retain the receipt form will in future have to mark the front of the cheque with an 'R' and on and after October 17th, 1957, the clearing banks will not examine receipt forms except on cheques which are so marked.

(4) Many industrial, commercial and other concerns have already announced that they do not in future propose to issue receipts (unless specifically requested) or to expect them and this will undoubtedly become more common because of the substantial economies it offers.

(5) The Council is of opinion that, subject to certain general safeguards and with some exceptions in particular cases, this development is to be encouraged. Some modification of existing procedures will generally be necessary and in considering these members, both in practice and industry, should bear the following points in mind:

(a) Although an unendorsed paid cheque will probably be no better evidence of receipt by the payee than an endorsed paid cheque, there are obvious advantages in bringing as many transactions as possible within the scope of Section 3. Cheques should therefore be crossed 'Not negotiable - account payee only', except where the payee is likely to wish to negotiate the cheque, in which case the restriction to his account should be omitted and a receipt or acknowledgment obtained wherever possible.

(b) Many cheques quote the payee's name incorrectly. In spite of recommendations from all the recognized accountancy bodies, neither the Mocatta Committee nor the Act dealt with this difficulty. The Committee of London Clearing Bankers has stated:

'Where the name of the payee is mis-spelt or the payee is otherwise incorrectly designated the cheque will normally be accepted for collection without endorsement unless there is some circum-

stance to make it appear that the customer is possibly not the person to whom payment is intended to be made.'

It is, therefore, most important that cheques should be made out correctly and practising members will wish to emphasize this to their clients.

(c) It is not at present the invariable practice of banks to return paid cheques automatically. Members in practice will, therefore, wish to impress upon some of their clients the importance of asking for the return of paid cheques and of retaining them for such period as may be considered necessary.

(d) A paid cheque, whether endorsed or not, does not, of itself, provide a link with any particular transaction. Arrangements should, therefore, continue to maintain identity between the payment and the invoice, statement or other voucher to which it relates.

(e) Original invoices and statements should not be sent to a creditor with a cheque in payment, because he is unlikely to return them. Instead, a form of remittance statement referring to the invoice etc., should be used. It is to be hoped that in due course creditors can be persuaded to issue statements in duplicate or to provide them with some kind of tear-off slip to accompany the remittance.

(f) In certain transactions members may deem it desirable to advise no particular change of existing procedures. These may include:

(i) cash transactions, those where the cheque is negotiated, or where payment is made by means of an instrument to which the Cheques Act does not apply;

(ii) transactions of an exceptional nature or those in which a formal discharge is necessary;

(iii) transactions which have to be established to the satisfaction of third parties, e.g. maintenance and other claims, payments to mortgagees, etc.

Practising members should also consider the general nature of their future requirements where clients' records are incomplete.

(g) Special considerations may apply in the cases of bodies handling public funds.

(h) The Cheques Act has not in any way affected the operation of the Stamp Acts. Where a payment is £2 or more it is, therefore, an offence to refuse to issue a receipt on request or to issue one inadequately stamped.

(6) Further statements on the operation of the Cheques Act may be issued from time to time if deemed necessary by the Council.

October 9th, 1957.

22 Bedford Square,
London, WC1.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTES (5 & 6 Eliz. 2)

Chapter 48: Electricity Act, 1957

An Act to provide for the dissolution of the Central Electricity Authority and the establishment of a Central Electricity Generating Board and an Electricity Council, and for the transfer of functions of the said Authority to that Board or Council or to the Minister of Power; to make further provision as to other matters relating to the supply of electricity; and for purposes connected with the matters aforesaid.

Price 2s 6d net.

July 17th, 1957.

Chapter 51: Road Transport Lighting Act, 1957

An Act to consolidate certain enactments relating to the lighting of vehicles on roads.

Price 9d net.

July 31st, 1957.

Chapter 52: Geneva Conventions Act, 1957

An Act to enable effect to be given to certain international conventions done at Geneva on the twelfth day of August, nineteen hundred and forty-nine, and for purposes connected therewith.

Price 4s 6d net.

July 31st, 1957.

Chapter 53: Naval Discipline Act, 1957

An Act to make provision for the discipline of the Navy, and for other purposes connected with the Navy.

Price 3s net.

July 31st, 1957.

Chapter 54: Tanganyika Agricultural Corporation Act, 1957

An Act to provide for the making of grants to the Governor of Tanganyika for the purpose of providing funds for the Tanganyika Agricultural Corporation; and for purposes connected with the matter aforesaid.

Price 3d net.

July 31st, 1957.

Chapter 55: Affiliation Proceedings Act, 1957

An Act to consolidate the enactments relating to bastardy, with corrections and improvements made under the Consolidation of Enactments (Procedure) Act, 1949.

Price 8d net.

July 31st, 1957.

Chapter 56: Housing Act, 1957

An Act to consolidate the enactments relating to housing with the exception of certain provisions relating to financial matters.

Price 4s 6d net.

July 31st, 1957.

Chapter 57: Agriculture Act, 1957

An Act to make further provision for guaranteed prices and assured markets for producers of agricultural produce in the United Kingdom; to authorize the payment of grants in respect of long-term improvements of agricultural land within the United Kingdom and in respect of the costs of certain transactions concerning such land; to make fresh provision for the development of the pig industry in Great Britain

(including the production, processing, manufacture and distribution of pig products); to authorize payments into the Exchequer of Northern Ireland on account of expenses incurred for the benefit of producers of agricultural produce in Northern Ireland; and for purposes connected with the matters aforesaid.

Price 1s 4d net.

July 31st, 1957.

Chapter 58: Registration of Births, Deaths and Marriages (Special Provisions) Act, 1957

An Act to provide for the registration of births, deaths and marriages occurring out of the United Kingdom among members of the armed forces and certain other persons, or occurring on board certain ships or aircraft; and for purposes connected with the matters aforesaid.

Price 6d net.

July 31st, 1957.

Chapter 59: Coal-Mining (Subsidence) Act, 1957

An Act to provide for the execution of remedial works and the making of payments in respect of damage caused by subsidence resulting from the working and getting of coal or of coal and other minerals worked therewith; for the execution of works to prevent or reduce such damage; for the carrying out of remedial or preventive measures in connection with land drainage affected or likely to be affected by such damage; and for purposes connected with the matters aforesaid.

Price 1s 6d net.

July 31st, 1957.

Chapter 60: Federation of Malaya Independence Act, 1957

An Act to make provision for and in connection with the establishment of the Federation of Malaya as an independent sovereign country within the Commonwealth.

Price 6d net.

July 31st, 1957.

Chapter 61: Winfrith Heath Act, 1957

An Act to extinguish rights of common and other rights, in so far as any such rights subsist in or over certain land in the parish of Winfrith Newburgh in the county of Dorset; to provide for determining the nature of the said rights, in so far as they subsist in or over that land, and the persons entitled thereto, and to provide for compensation in respect of the extinguishment thereof; and for purposes connected with the matters aforesaid.

Price 8d net.

July 31st, 1957.

Chapter 62: Governors' Pensions Act, 1957

An Act to consolidate the Governors' Pensions Acts, 1911 to 1956.

Price 8d net.

July 31st, 1957.

Chapter 63: Appropriation Act, 1957

An Act to apply a sum out of the Consolidated Fund to the service of the year ending on the thirty-first day of March, one thousand nine hundred and fifty-eight and to appropriate the supplies granted in this Session of Parliament.

Price 2s 9d net.

August 1st, 1957.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council Meeting held on October 2nd, 1957, who completed their Fellowship or membership before October 15th.

Associates elected Fellows

- Armstrong, Alan Richard, B.A.; 1949, A.C.A.; (Stowell & Bayley), 57 King Street, Manchester, 2.
 Bowles, Wilfred Herbert; 1936, A.C.A.; (Norton, Slade & Co), 453 Salisbury House, London Wall, London, EC2.
 Couchman, Conrad; 1952, A.C.A.; (Norton, Slade & Co), 453 Salisbury House, London Wall, London, EC2.
 Craig, Wilfred Charles; 1950, A.C.A.; (Barnitt & Scholey), 6 Peckitt Street, York.
 Davies, Douglas Trevor; 1943, A.C.A.; (Bennett & Bennett), 13 Bold Street, Warrington.
 Friend, Bernard; 1951, A.C.A.; (Kruger, Friend & Co.), 45 Clarges Street, Piccadilly, London, W1, and 2 Cairnfield Court, Cairnfield Avenue, Neasden, London, NW2.
 Gandy, Philip; 1950, A.C.A.; (Bennett & Bennett), 13 Bold Street, Warrington.
 Griffiths, Peter Dudley; 1951, A.C.A.; (*David R. Morgan & Co), 51-52 Broad Street, Newtown, Montgomeryshire, and at Bishop's Castle and Llanidloes.
 Jackson, Gerald Walter Compton; 1948, A.C.A.; (Dearden, Gilliat & Co), (R. F. Miller & Co) and (Marshall, Gibbon & Co), Croxley House, 14 Lloyd Street, Albert Square, Manchester, 2.
 Kirby, Michael James; 1952, A.C.A.; (Kirby & Co), Chester House, High Street, Coventry.
 Lees, James Cooper; 1950, A.C.A.; (Dixon, Hopkinson & Co) and (Jas. M. McIntosh & Son), Grosvenor Buildings, 15A Steelhouse Lane, Birmingham, 4; also at West Bromwich (Dixon, Hopkinson & Co).
 Marshall, Francis David; 1948, A.C.A.; (Stowell & Bayley), 57 King Street, Manchester, 2.
 Pledge, Frederick Herbert; 1951, A.C.A.; (Bristow & Co), 68½ Upper Thames Street, London, EC4.
 Quick, Sidney Philip; 1931, A.C.A.; (Maidment, Penney, Quick & Co), 6 Chandos Street, Cavendish Square, London, W1.
 Schwartz, Sidney; 1950, A.C.A.; (Kruger, Friend & Co), 45 Clarges Street, Piccadilly, London, W1, and 2 Cairnfield Court, Cairnfield Avenue, Neasden, London, NW2.

Admitted as Associates

(Not in Practice)

- Elcombe, Graham Ralph Stuart, B.A., 'The Ridge', Pinner Hill, Middlesex.
 Goodwin, Alan Ernest, 23 Boston Gardens, Boston Road, Hanwell, London, W7.
 Leedham, Peter, 48 Patrick Street, Grimsby.
 Motteram, Robert William, 91 Greenfields Road, Kingswinford, near Brierley Hill, Staffs.
 Richards, Clive Walter, 35 Cropston Road, Anstey, near Leicester.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

Firms not marked † or * are composed wholly of members of the Institute.

- Skinner, Peter John, 39 Wood Street, Chatteris, Cambs.
 Sorley, Peter Gruer, B.A., with †Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, London, EC2.
 Springall, Ronald, B.Sc.(ECON.), 'Palmsted', Woodplace Lane, Coulsdon, Surrey.
 Wildbur, John Robert, with *Larking, Larking & Whiting, Bank Buildings, 4 Tuesday Market Place, King's Lynn, Norfolk.
 Willett, Charles Graham, with Howard Smith, Thompson & Co, Beaufort House, 96 Newhall Street, Birmingham, 3.

(Not in England or Wales)

- Loumeau, Marie Léon Gaston, c/o Blanche, Birger Co Ltd, P.O. Box 209, Port Louis, Mauritius.

Former Member re-admitted to Membership

- Cookson, Kenneth Alastair Mackenzie, P.O. Box 868, Nassau, Bahamas.

PERSONAL

MESSRS HILL, ARMITAGE & Co, Chartered Accountants, of Leeds, announce that as from October 14th, 1957, their address is Brotherton Chambers, Westgate, Leeds, 1. The telephone number (Leeds 29591) remains unchanged.

MESSRS ROBERT J. WARD & Co, Chartered Accountants, of Adelphi Terrace House, 3 Robert Street, Adelphi, London, WC2, announce with great regret the death on October 6th of their senior partner, Mr WALTER BONIFACE, F.C.A.

MESSRS BROWN, PHILLIPS & STEWART, Accountants and Auditors, of Hongkong Bank Chambers, Ipoh; announce that as from October 1st, 1957, they have entered into partnership with the partners of Messrs BUCKLE, SYKES & WEATHERLY, Chartered Accountants, Penang. The partners in the new firm will be Messrs G. W. FIRTH, A.A.C.C.A., E. H. SYKES, F.C.A., F. WEATHERLY, F.C.A., and B. H. ROBSON, F.C.A. The practice will continue to be carried on under the firm name of BROWN, PHILLIPS & STEWART at Hongkong Bank Chambers, Ipoh.

MESSRS THOMAS BRITAIN & Co, Chartered Accountants, of 4 Waterloo Street, Birmingham, 2, announce that Mr T. L. PERRY, F.C.A., after a long association and by mutual arrangement, has retired from the practice. The remaining partners will continue in partnership as THOMAS BRITAIN & Co and will assume the responsibilities hitherto undertaken by the retiring partner. By friendly arrangement, Mr PERRY will practise in a consultative capacity only from the same address.

MESSRS CRAIG, GARDNER & Co, Chartered Accountants, of Dublin and Belfast, announce that as from October 6th they have admitted to partnership Mr GEORGE WILLIAM COLEMAN, A.C.A., who has been a member of their staff for some years.

MESSRS GRAHAM, SMART & ANNAN, Chartered Accountants, of Edinburgh and London, regret to announce the sudden death on October 6th of their senior partner, Mr ALFRED ANNAN WIGHTON, O.B.E., D.L., C.A.

MESSRS DIXON, HOPKINSON & Co, Chartered Accountants, incorporating JAS. M. MCINTOSH & SON, announce that as from October 18th, 1957, their offices have been removed to Lancaster House, 67 Newhall Street, Birmingham, 3. The telephone number will remain unchanged.

MESSRS ALLAN, CHARLESWORTH & Co, Chartered Accountants, of 17 St Helen's Place, Bishopsgate, London, EC3, announce with much regret the death, on October 9th, of Mr HUGH FRASER, F.C.A., who had been a member of the firm for sixty years. The practice will be carried on by the surviving partners.

PROFESSIONAL NOTES

Mr C. W. Tyrell, F.C.A., has joined the board of Burt, Boulton & Haywood Ltd, as a director serving in a part-time capacity.

Mr John K. Dick, F.C.A., joint managing director of Mitchell Cotts & Co Ltd, has joined the board of the British Xylonite Co Ltd.

Mr A. K. Meggitt, A.C.A., chief accountant of Humber Ltd, has joined the board of the company.

Mr Kenneth H. Watkiss, A.A.C.C.A., A.C.I.S., has been appointed chief accountant of Geo. Salter & Co Ltd, of West Bromwich.

REVENUE PAPER MICHAELMAS SITTINGS, 1957

HIGH COURT

The following cases are down for hearing in the High Court:

Benjamin Jacobs *v.* F. H. Eavis.

Racecourse Betting Control Board *v.* M. Young.

Racecourse Betting Control Board *v.* C.I.R.

M. Young *v.* Racecourse Betting Control Board (Cross Appeal).

C.I.R. *v.* Racecourse Betting Control Board (Cross Appeal).

B. M. Lindsay Fynn *v.* C.I.R.

Mrs Phyllis Brown Oughtred *v.* C.I.R.

B. E. V. Savine *v.* Lookers Ltd.

Petition

In the matter of the Estate Duty on the Estate of Charles Gerald Beasley, deceased, and in the matter of the Finance Act, 1894, Section 10: between Ellen Beatrice Beasley (widow), Ronald Walker and John Edward Holdich Warnaby *v.* C.I.R. (SOG).

F. L. Tomkiss *v.* Harry Richards.

Parway Estates Ltd *v.* C.I.R.

Air Vice-Marshal D. C. T. Bennett *v.* L. T. Rowse.

Joseph Wright *v.* V. D. Boyce.

Jacob L. Ellwood and A. W. Motion *v.* L. S. Bush.

F. H. Ostime *v.* Australian Mutual Provident Society.

A. W. Grey and L. R. Randolph *v.* C.I.R. (Stamp Act, 1891).

Charles M. Jennings *v.* N. Kinder.

E. J. L. Hochstrasser *v.* Leonard Harry Mayes.

W. Hartley Hawes *v.* F. D. Gardiner.

Western United Investment Co Ltd *v.* C.I.R. (Stamp Act, 1891).

C.I.R. *v.* Arthur Ralph Cook.

R. J. Angel *v.* Hollingworth & Co.

H. W. Bradbury *v.* Tom Arnold.

2½ PER CENT SERIAL FUNDING STOCK 1957

The Treasury has announced that no conversion offer will be made in respect of the £503 million 2½ per cent Funding Stock 1957 maturing on November 14th next. Over four-fifths of the stock is now held by the departments, leaving less than £100 million in the hands of the public. The stock will be repaid at par on the due date in accordance with the terms of the prospectus. This decision leaves the Treasury free to continue, as they intend, the policy of reducing the floating debt at all suitable opportunities by the most appropriate methods.

INTERNATIONAL TAXATION COURSE

Twenty-seven senior income tax and customs officials from fourteen countries are at present attending a ten-week course on taxation, organized by the British Council in London.

The first part of the course, from October 7th to November 1st, consists of a concentrated series of lectures arranged in co-operation with the Treasury, the Board of Inland Revenue, H.M. Customs and Excise and The Institute of Municipal Treasurers and Accountants. Subjects range from a general introduction to Parliament and the Government control of finance, to methods of direct taxation, the organization of customs and excise and local government taxation. After November 1st, the course will disperse and members will gain practical experience of the British tax system by being attached to Revenue departments and local authority treasurers' departments.

Course members have come from the Bahamas, Burma, Ceylon, Ghana, India, Indonesia, Japan, Libya, Malta, Mexico, Nigeria, Pakistan, Philippines and Sierra Leone. They are in Britain under United Nations awards, the Colombo Plan, the United Kingdom/Ghana Mutual Technical Assistance scheme, Colonial Office auspices, or have been sent by their Governments.

BRITISH INSTITUTE OF MANAGEMENT NATIONAL CONFERENCE

The British Institute of Management is holding its twelfth national conference at Bournemouth from November 6th-8th, with, as its theme, the speedy application of research leading to better methods of management. The opening address at the conference will be given by The Rt. Hon. the Viscount Monckton of Brechley, P.C., K.C.M.G., K.C.V.O., M.C., Q.C., chairman of Midland Bank Ltd.

A wide variety of sectional meetings includes an address by Mr A. E. Tunley, A.C.A., on 'Budgetary control: its implications for financial research'. Other addresses include 'Economic research as a service to business', by Mr Campbell Fraser; 'Productivity and profits', by Mr R. J. Brech, head of the economics and statistics department of Unilever Ltd; and 'Preparing the programme for electronic data processing', by Mr D. Greensmith, M.B.E., general office manager of Boots Pure Drug Co Ltd. There will also be study groups on 'The use of management ratios in the small firm', and for 'Control by electronic computer'. The conference will end on the Friday evening with a reception and dancing.

WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY

A meeting of the Women Chartered Accountants' Dining Society was held on Saturday, October 5th, at the Y.W.C.A. Central Club, Gt. Russell Street, London, W1, at which women articled clerks were entertained by the members. The first part of the afternoon was devoted to a report on the Seventh International Congress of Accountants held in Amsterdam, and was given by some of the members who attended. This was illustrated later with some coloured transparencies taken in Holland by two of the members, despite adverse weather conditions.

After tea, there followed a discussion on topics of professional interest to women. From their personal

knowledge, members answered questions concerning the openings for women in commerce and industry, the prospects for women in the profession at home and abroad, the difficulties facing women setting up in practice, the steps being taken to attract women into the profession, clients' attitude towards women accountants, and advice on the best course of action to be followed after qualifying. Some instructive and stimulating ideas were expressed.

The new chairman of the Society is Mrs E. M. Wright, A.C.A., the vice-chairman is Miss M. Fox, F.C.A., and the secretary is Miss B. I. Rainey, F.C.A. Any woman member of the Institute wishing to join the Society is invited to write to the Secretary, c/o Porritt, Rainey & Co, 63-64 New Broad Street, London, EC2. The annual subscription is 15s.

The next meeting of the Society will be the annual dinner to be held on Saturday, November 30th, at *The Hotel Rubens*, London, SW1.

MANSFIELD LAW CLUB

The opening meeting in the Michaelmas term of the Mansfield Law Club was held recently at the City of London College, London, EC2, when the Rt. Hon. Lord Denning spoke on 'Upholding professional standards'.

Other meetings have been arranged as follows:

October 24th: 'Modern trends in English commercial law', by Mr Clive M. Schmitthoff, LL.D., Barrister-at-Law, M.I.E.C.

November 7th: 'The commercial court', by the Hon. Mr Justice Devlin.

November 21st: 'Books on commercial law', by Mr H. Goitein, Professor of Law in the University of Birmingham.

December 7th: A moot. In the chair: Mr A. S. Diamond, M.A., LL.D., Master of the Supreme Court.

All these meetings will be held at the City of London College, Moorgate, EC2, at 6 p.m., and will be preceded by an informal tea for members and their guests. Visitors are welcome at all meetings.

MANCHESTER AND LIVERPOOL STUDENTS JOINT RESIDENTIAL COURSE

The seventeenth joint residential course for students to be arranged by the Manchester and Liverpool Societies of Chartered Accountants, was held recently at Burton Manor, Burton-in-Wirral, Cheshire.

There were ten lectures for Intermediate students and eleven lectures for those preparing for the Final examination. Each address was followed by group discussion. Other features of the course included a discussion on general commercial knowledge under the chairmanship of Mr J. H. Bradley, F.C.A., and a general financial knowledge brains trust in which a panel of four members together with Mr J. F. Allan, F.C.A., as chairman, answered questions put to them by the Final students.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday, at the Institute: 'Practical aspect' lectures for Intermediate students:

'Costing', by Mr F. T. Hunter, F.C.A., F.C.W.A.

'The work of executors and trustees', by Mr M. W. Lockyer, A.I.B.

'The accountant's place in an industrial organization', by Mr E. H. Davison, A.C.A. (Treasurer, Courtaulds Ltd).

'Banking practice', by Mr H. J. Witheridge, M.C., B.COM. (Public Relations Officer, Midland Bank).

5.30 p.m., at the Institute: Lecture on 'A stockbroker's view of published accounts', by Mr R. S. Allen, B.A., Barrister-at-Law, and Mr C. P. Brousson, M.A., F.C.A. (Senior Statistician and Chief Accountant, respectively, J. & A. Scrimgeour). Chairman: Mr W. G. Densem, F.C.A.

Tuesday, at the Institute: 'Practical aspect' lectures for Intermediate students:

'The practical view of auditing', by Mr R. F. Sumner, F.C.A.

'Accounting for management', by Mr W. S. Hayes, A.C.A. (Financial Director, J. & E. Hall Ltd.)

'Assurance and insurance', by Mr S. R. Fenwick, F.C.I.I. (Manager, Home Accident Department, Prudential Assurance Co).

Visit to Lloyds Bank Ltd (limited number).

Visit to Ford Motor Works (limited number).

Wednesday, at the Institute: 'Practical aspect' lectures for Final students:

'Building societies: their functions and financial structure', by Sir Bruce Wycherley, M.C., F.C.I.S. (Managing Director, Abbey National Building Society).

'The finance of foreign trade', by Mr P. S. Shaw (Assistant Manager, Midland Bank, Overseas Branch).

'The economic effects of taxation', by Mr A. R. Hersic, M.Sc.(ECON.), B.COM.

'Receiverships and bankruptcy practice (including deeds of arrangement)', by Mr Leslie Cork.

5.30 p.m., at the Library: Speaker's course lecture on 'How to deliver a speech', by Miss H. M. Taylor (Principal, The Abbey School for Speakers).

Thursday, at the Institute: 'Practical aspect' lectures for Final students:

'The consolidation of accounts in practice', by Mr E. D. McMillan, A.C.A.

'Stock Exchange practice', by Mr P. Legge (member of the Stock Exchange).

5.15 p.m., at the Institute: Introductory course lecture on 'The nature of the items in final accounts', by Mr F. R. Porter, F.C.A., A.C.W.A.

Friday, 5.15 p.m., at the Institute: Introductory course lectures: (1) 'The taxation system', by Mr F. R. Porter, F.C.A., A.C.W.A.; (2) 'The ownership and control of a business', by Mr P. W. Medd, Barrister-at-Law.

7.0 p.m., at Chelmsford: Lecture on 'The law of contract and sale of goods', by Mr C. Griffiths, LL.B.

Saturday, 10.0 a.m., at Luton: Lectures on 'My job: a company secretary' and 'Industry or the profession', by Mr J. L. Dickinson, A.C.A. (Secretary, Skefko Ball Bearing Co Ltd).

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CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The autumn meeting of the Chartered Accountants' Golfing Society was held at Swinley Forest Golf Club, on Thursday, October 3rd, when fifty members attended. The leading returns were:

MEDAL COMPETITION

C. I. Steen	83-14=69	wins 1st prize
J. R. Briggs	73-3=70	wins 2nd prize and scratch prize
J. D. Green	89-18=71	
S. G. Sillem	74-3=71	
P. H. Blandy	90-18=72	
J. Bradfield	83-10=73	
A. W. Coleman	87-14=73	
S. A. Letts	85-12=73	
W. G. M. Price	80-7=73	
R. A. Daniel	84-10=74	
H. P. Patterson	94-20=74	
H. W. Pitt	83-9=74	
D. L. Thomas	87-13=74	
S. A. Letts	91-16=75	
H. Lemmon	84-9=75	
S. Pleydell-Bouverie	94-18=76	
J. B. Pittman	87-11=76	
J. C. Powell	93-17=76	
J. O. R. Darby	84-8=76	
W. B. Henderson	82-6=76	
N. W. Collett	88-11=77	
J. J. Isherwood	90-13=77	
S. B. Pendock	88-11=77	
P. V. Roberts	93-16=77	
D. E. Webb	86-9=77	

STABLEFORD FOURSOMES

J. C. Powell and E. H. Wingfield ..	39 points	win 1st prize.
A. C. Blackburne and H. G. L. Foulger	38	win and prize.
J. R. Briggs and W. G. M. Price ..	37	"
R. A. Daniel and H. C. Staines ..	34	"
J. E. O. Arnold and P. H. Blandy ..	33	"
J. D. Green and S. Pleydell-Bouverie	33	"
P. Knight and J. H. Bradfield ..	33	"
H. Harden and L. V. Mills ..	33	"
R. D. Henderson and J. H. Shaw ..	33	"
A. W. Coleman and D. L. Thomas ..	30	"
N. W. Collett and C. I. Steen ..	30	"
W. J. Kerr and H. W. Pitt ..	30	"
A. B. Green and P. H. Martin ..	30	"

TURQUAND-YOUNG CHALLENGE CUP

Aggregate of medal score at summer and autumn meetings	
A. W. Coleman	72+73=145

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

'The more abundant life' will be the subject of a talk by Alderman Cyril W. Black, J.P., M.P., at the next meeting of the Accountants' Christian Fellowship to

be held at 6 p.m. on Friday, October 25th at Incorporated Accountants' Hall, Victoria Embankment, WC2. After the meeting there will be a short discussion for students on the teaching of the Bible in relation to points in the address.

Readers and their friends, whether or not they are members of the Fellowship, will be very welcome.

SILVER JUBILEE

A celebration dinner and dance was held last Monday, at *The Park Lane Hotel*, Piccadilly, London, to mark the attainment this year of the Silver Jubilee of The Association of International Accountants. Mr S. J. Noel-Brown, F.A.I.A., A.C.I.S., presided, and among those present were:

Mr Geoffrey P. Stevens, F.C.A., M.P., and Mrs Stevens; Mr Stephen J. McAdden, M.P., and Mrs McAdden; and Mr John Barter, M.P., and Mrs Barter.

Members of the Council present were: Mr T. W. Meldrum, F.C.A. (*Chairman*), Mr Kenneth Mines, F.T.I.I. (*Vice-Chairman*), Messrs V. H. Frank, M.A., F.C.A., S. A. Lancaster, D. Colquhoun, E. P. Hubbard, and Charles E. Taylor, F.C.I.S.

BIRMINGHAM AND DISTRICT CHARTERED ACCOUNTANTS' GOLFING SOCIETY**AUTUMN MEETING**

The Birmingham and District Chartered Accountants' Golfing Society recently held a successful meeting at Blackwell when Mr P. D. Kelley, an articled clerk, won the cup presented by the Society for this year's Morning Medal Round. Playing off a handicap of two, Mr Kelley returned a net 68. The runner-up, another articled clerk, also returned a net 68, the winning card being decided on the last nine holes.

In the afternoon the Greensome competition was won by Mr K. N. Deacon and Mr G. R. Watson.

The leading results were as follows:

MORNING MEDAL

1	P. D. Kelley, articled clerk ..	70-2=68
2	M. T. Ireland, articled clerk ..	72-4=68
3	S. T. Farmiloe	89-19=70
4	R. S. MacDonald, articled clerk ..	97-24=73
5	L. F. Jones	90-16=74
6	S. V. Lancaster	83-8=75
7	P. Griffiths	99-24=75
8	J. Seedhouse	84-8=76
9	W. C. Nelson	83-7=76
10	N. O. Thomason, articled clerk ..	88-10=78

AFTERNOON GREENSOME

1	K. N. Deacon and R. Watson ..	87-16½=70½
2	H. D. Radford and M. Brookes ..	85-13½=71½
3	D. Robson and H. W. Holt ..	86-13=73
4	L. F. Jones and W. C. Nelson ..	85-11½=73½
5	D. W. Crabbe and B. Walker ..	90-15=75
6	J. Seedhouse and J. J. Seedhouse, Jun.	84-8½=75½

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REVOCABLE SETTLEMENTS

NINETEEN years ago the Finance Act, 1938, introduced some remarkably drastic anti-avoidance provisions directed against revocable settlements, since when it has been accepted as a truism of income tax law that a revocable settlement was nugatory as far as reducing the settlor's tax bill was concerned. Once again, however, an apparently inviolable principle of tax law has been successfully attacked, as a result of the discovery of a sizeable chink in the armour erected by the draftsman and now contained in Section 404 (2) of the Income Tax Act, 1952.

If one were to hear of a settlement of, say, £25,100 which was for all practical purposes revocable as to the £25,000 but not revocable as to the remaining £100, one might be pardoned for assuming, with the Inland Revenue, that it was also revocable for the purposes of Section 404 (2). However, the House of Lords, by a bare majority, has held that this is not so (*Saunders v. C.I.R.* ([1957] T.R. 223)). The story began with the settlement of a mere £100, the income from which was to be held on discretionary trusts for a large class of persons including the settlor's wife. The trustees had power to pay over the capital of the settled fund to members of the specified class, but subject to the proviso that the value of the funds remaining subject to the trusts of the settlement should not be made to fall below £100. After the settlement was executed the settlor handed over a further £25,000 to the trustees to be held on the same trusts, but the Inland Revenue conceded that there was only one settlement.

Section 404 (2) provides that if, and so long as, the terms of a settlement are such that

- (a) any person has or may have the power to revoke or otherwise determine the settlement or any provision thereof; and
- (b) if the power is exercised the settlor or his wife will, or may, become beneficially entitled to the settled property or income, or any part of it,

then the corresponding income is to be treated as the settlor's.

The emphasis is, of course, on (b), and this fact has perhaps led to a tendency to pay rather less attention to the fact that (a) also must be complied with to the letter if the settlement is to be caught. A great deal of the argument in the case turned on the meaning of the word 'provision', but LORD SIMONDS in his judgment neatly put the question as, 'Does the word "revoke" include partial revocation and the word "determine" include partial determination?' He answered his own question in the negative; nothing would have been easier, he added, than to include in paragraph (a) words appropriate to partial determination, but the draftsman had not done it.

OPERATION 'CONSOLIDATION'

by P. H. SHIRLEY

Member of The Institute of Chartered Accountants in Australia;
Chief Accountant, Unilever Ltd

Two parent companies with a total employed capital of £470 million, controlling some 460 active companies in fifty different countries, announced their year-end results on March 1st; that is the Unilever achievement. The following article describes how it was accomplished.

IN its issue of May 4th, 1957, *The Accountant* commented that

'The Unilever accounts, vast though the figures are, are produced with surprising promptness. . . .'

The consolidated accounts as at December 31st, 1956, were completed on March 1st, 1957, and the audit reports signed on March 19th. This year, for the first time, half-yearly figures to end-June were issued and appeared at the beginning of September.

It has been suggested that it may be of interest, and possibly of some help, to others to know something of the consolidation procedure, particularly as regards the annual accounts.

Unilever Group Structure

Perhaps it would be as well to explain briefly the structure of the Unilever Group. There are two parent companies. One, Unilever Limited (known in the group as 'Limited' and referred to in this article as such), is the holding company of the interests operating in the United Kingdom, the British Commonwealth and some other territories; the other, Unilever N.V. (known as 'N.V.'), is a Dutch company and holds the continental and the remaining overseas interests.

Although Unilever is thought by many to be a single entity, it does not in fact exist as such in legal form. The linking of the two parent companies is achieved through a series of agreements equalizing the rights of the shareholders of each and they have identical boards; this permits of a unified approach to the organization, and is reflected in the common form used for the presentation of the reports and figures issued by the two companies.

'Limited', being subject to the provisions of the United Kingdom Companies Act, produces accounts in accordance with the requirements of that Act; 'N.V.', being subject to Dutch law, is not obliged to produce consolidated accounts, nor is there any obligation, in law or by agreement, on either company to report the figures for the whole Unilever complex. In view of the unusual partnership arrangement between the companies, however, it is considered appropriate for the accounts of

'N.V.' to be produced in a pattern similar, and disclosing' corresponding information, to that given for 'Limited'. In addition, the figures for the combination of the two groups are provided as information considered to be of material interest to the stockholders of each company. Naturally, the consolidation for 'Limited' is prepared in sterling, and that for 'N.V.' in guilders. However, to provide the combined information in a form most easily followed in the countries in which the parent companies are domiciled, the 'N.V.' figures, converted to sterling, are included in the reports issued by 'Limited', and for the shareholders in Holland, the 'Limited' figures are expressed in guilders.

'Limited' has over 190,000 ordinary and preference stockholders and 10,000 holders of debenture stock. The Dutch company's shares, most of which are in bearer form so that the number of shareholders is not known, are listed on the Bourse in Amsterdam, and also in London and Paris, and are dealt in quite extensively in New York. Thus the Dutch company's figures and reports have to be issued not only in the Dutch language, but also in English and French.

The report and accounts for 1956 ran to thirty-one pages and it will be realized that after completion of the accounting, much work is involved in translating, printing and distribution. This partly explains why our results were announced on March 1st, but the accounts were not posted to shareholders until April 3rd. 220,000 copies of the 1956 accounts of 'Limited' were printed.

The Operating Units

The two parent companies control some 460 active companies operating with local management in fifty countries having forty currencies. Some of the operating companies are quite small, but others are themselves large undertakings consisting of several separate operating divisions. One company in particular, the United Africa Co, has a number of active subsidiary companies, but also operates directly at several hundred points at which accounting has to be performed, these being situated in the United

Kingdom, various overseas purchasing centres, and trading areas all over West, East and Central Africa, and in the Middle East.

The operating companies are, in some cases, direct subsidiaries, but frequently the interests in particular industries or countries are grouped and held through sub-holding companies. Some of these sub-holding companies, like the United Africa Co, are also themselves operating units; sometimes they are United Kingdom or Dutch companies, but often they are overseas or foreign companies. Grouping, however, can be disadvantageous from a taxation point of view. In the U.S.A., for instance, it is avoided because of the taxing of dividends from one company to another. In other areas there may be political or other reasons for grouping despite a taxation cost. There are third-party interests through preference or equity capital in many of the subsidiary companies, both in the home countries and in many of the overseas and continental countries.

The total capital employed at December 31st, 1956, was £470 million. Each company makes up accounts to December 31st (one retail group in fact works to the nearest Saturday). For the United Africa Group, the formal year-end is August 31st and this group, therefore, produces only estimated accounts at December 31st. However, there is little difference between the form of the August closing and the December estimating. There is a great deal of inter-company accounting, and rates of exchange add much to the complications of the consolidation operation, particularly in these days of multiple rates and remittance taxes. We consolidate all assets and liabilities at current rates of exchange.

Procedure

The foregoing gives some indication of the scale of the task of attempting to produce the annual statements more quickly. The foundations were laid many years ago when 'Limited' began publishing full consolidated accounts in 1943 – some time before these became obligatory. Since then there has been a progressive improvement in the date of publication, deliberately aimed at achieving two main advantages. First, the shareholders benefit if the time of speculation about results is reduced, and incidentally, they receive their dividends earlier; secondly, senior accountants and operating managements are more speedily rid of the problems of the past and are therefore free to concentrate on their principal job of dealing with the present and looking ahead.

As a corollary to the second advantage,

company accountants have become accustomed to taking decisions based on available data, instead of waiting for all the minute detail of accrued liabilities etc., and thus have become, in many cases, better equipped to deal with current and forward estimating.

The main effort towards improvement has been concentrated on the following aims:

- (i) to get all managements, and particularly accounting managements, to see the year-end job in perspective and with due regard to the relative importance of items in the picture presented and not, in a continuing business, to over-value meticulous accuracy in relation to the size of the unit or the concern as a whole;
- (ii) to delegate to the operating companies everything that can be done at company level and so reduce the head office work to a minimum;
- (iii) to get all concerned to realize that the production of accounting information, either at company or head office level, is in essence the equivalent of a factory production job which will be improved by planning and the best use of resources.

The Realistic Approach

We have tried to persuade everybody to realize that the end of the calendar year is not the end of time, and that the annual accounts are a staging report rather than a statement of affairs. So often one sees a great deal of laborious arithmetic used to apportion a cost which itself is no more than an arbitrary allocation of something else, or detailed calculations of stock values to be applied to a quantity which can, in any case, be accurate only within varying tolerances. The time spent on doing this detailed work could never be justified from a commercial point of view in terms of current operating controls, but is often used at the year-end to get a so-called accurate statement. When the unimportance of this alleged accuracy, which perhaps influences the last digit or two in a six-figure item, is understood, it soon becomes possible for most companies greatly to reduce the year-end accounting work. Similarly, by developing the realization that the position at December 31st has but transient significance, it is possible, as many other companies indeed do, to spread verification procedures over the year and reduce year-end physical checking and associated calculations etc. to a minimum.

It is easy for a head office department to develop a belief that it has more expertise than exists in the subsidiary companies, and that

consolidation adjustments and calculations of outside interest etc. can only be done in the centre; in fact the skills in the company and the headquarters of the national managements in the various countries are no less than in head office. We therefore determined that whatever work could be done at the units, should be, so that to a great extent the consolidation goes on simultaneously in many parts of the world.

Head office used to receive from each country the separate accounts for every company and prepare the country consolidations which are a prerequisite to the overall consolidation, but much of this head office work has been eliminated by arranging that the national accountants prepare their country consolidations. One big advantage of this has been to reduce, very materially, the number of points arising in relation to individual sets of accounts, as these questions are now largely resolved locally. The overseas accountants, comprising many nationalities, have felt themselves to be playing a larger part in the total operation and have responded accordingly to the added responsibility placed on them by this arrangement.

Factory Techniques

The application of our third principle—an attempt to adopt production techniques in the head office operation—made an important contribution to an improvement in the time-table. In the first place, we calculated the total work content of the job in terms of the different calibres of staff who would be needed, assuming an even flow of incoming material. Comparing this with the staff resources, we were able to establish what time-table should be achievable if the desired flow could be arranged. The next phase was therefore to plan, as far as we could, that, as for raw material in a factory, the information required for the consolidation would arrive in an order which would enable the head office staff to work at an even pressure instead of with unpredictable peaks and troughs of activity. We tackled this in two ways. We asked the companies to help by sending in part of the material without waiting for completion, and arranged for dates for completion by unit companies to fit their own capacities and our time pattern. As a result, it is now common practice, for example, for all capital expenditure details to be sent to head office as early in January as possible, so that they are processed well before the main work has to be done. Likewise, statistics of turnover, personnel and other information used in the directors' report or review of the business published with

the report and accounts, are phased to be completed promptly after the year-end on the principle that most of this can be compiled by the companies as the year proceeds and completed in the first few days of January.

So far as the accounting statements are concerned, some countries are able to finish their work more quickly than others, depending on the size and number of their undertakings, the nature of the business and so on, but all companies are now able to let us have their final figures by the end of February. It is interesting that some of the best performances are put up by the companies in the less developed countries in Africa and the Far East, where, incidentally, all, or most, of the accounting personnel are nationals of the countries.

The spread of the work among members of the head office departments is controlled by grouping on the basis of estimated date of receipt of accounts; thus, each member of the head office staff deals with a group of countries based upon planned dates of receipt of accounts. Some gratifying improvements have been achieved by unit companies; for example, a substantial business overseas that formerly produced its accounts by the end of March now does so before the end of January. The member of the staff who deals with this group is then allotted other countries whose accounts are to be received progressively during February, and his pattern of work is clearly established before the operation begins. This has enabled us to reduce the head office staff; further, the staff suffer much less mental strain, working to their own time-table, than they did before detailed planning was possible. It is also worth noting that improvements by countries, such as that mentioned above, have not been made by imposition from the centre but from the enthusiasm and planning of the operating company personnel.

Form and Method

Even after we had delegated to countries the responsibility for their national consolidation, there was still much work to be done in London in summarizing the country consolidations and making the inevitable head office adjustments.

By employing standard forms, peg-boards, photographic copying techniques and other devices, we are able to use original documents received from the accounting entities and so eliminate substantial scheduling formerly necessary. This has saved typing time and checking, both by ourselves and by our auditors who now receive facsimiles of original material.

All our companies report items of an unusual nature as and when they occur and head office can thus attend at once to any request for an opinion, or take any other action required. The outcome of this is that instead of there being a kind of annual post-mortem, there are now very few problems to be resolved after the end of December.

While in Unilever we do not have a detailed accounting manual in which there is laid down a prescribed accounting system to be adopted by every company, we do periodically give guidance on general principles with particular reference to the treatment, classification and grouping of items for balance sheet and final accounting purposes. Also, each year, we ask every company to present its final statements in a standard form, for the reasons explained above. Any modifications to previous requests that are needed are decided in head office by the end of September, and the forms with covering explanatory notes are issued to companies in October to give them ample opportunity, before the year-end, to dispose of any doubts or take up with head office any points on which they are not clear.

Audit

Many who started in the accountancy profession twenty-five or thirty years ago know how substantial has been the change of attitude of the professional auditors, which has been made possible by improvements in company administration since the days when it was necessary to check every posting, examine every purchase invoice, extract all sales ledger balances and insist on all creditor balances being verified with statements. It is an echo of those days that when we suggest relying on physical rather than on accounting controls of engineers' stores or stationery, etc. the older employee may still reply that 'the auditor requires it'. Whether the auditor does require it or not is another matter.

Even some of our overseas colleagues, quick though they have generally been to accept this new thinking, have startled us once or twice in the last decade with a sudden nostalgia for the old ideas. Four or five years ago we remitted a small sum to an overseas company which arrived denuded of a shilling, the fee deducted by the bank for performing the service. We stolidly ignored the two plaintive cables asking us to explain the discrepancy of a shilling in the home and overseas balances. One of the last convulsive struggles of tradition was a cable from the auditors of an overseas company, solemnly

advising that the draft accounts were wrong and that £12 1s 6d posted to travelling expenses properly belonged to postages and telegrams.

Obviously, if there had not been a change in the attitude of the accountancy profession towards the realities of effective control and away from such detailed concepts, we could not have achieved what we have in the way of improving our time-table. At the same time, we have been helped by a positive contribution by our auditors not only in the United Kingdom and Holland, but in practically all the operating areas. This has resulted in a better relationship between the companies and their respective auditors which has been fostered also by informing the auditors of unusual features as they arise.

The auditors have joined with us in the spreading of verification work in place of the previous year-end aggregation, and we appreciate the constructive help given, in conjunction with our internal audit, in arranging the audit programmes to suit our plans to improve the time-table.

Conclusion

Mention was made earlier of some of the advantages that follow from doing this job more speedily and an endeavour has been made to explain how Unilever have rationalized their methods. The consequence in itself is of benefit, but also it has meant that we not only use less staff in the head offices but they work to a more regular pattern. As a generality, it is true that the operating companies as well, by adopting techniques of planning and organization similar to those described for head office, have been able to free their staff earlier for the more important tasks essential to the progress of the business.

We do not wish it to be thought that we regard any of this as spectacular or even original, but it was suggested that others might find something useful in our story. To sum up, I think we have derived substantial benefits from applying production methods to a job that has a large element of routine. We have found that common sense is at least as important as accounting expertise, and have confirmed that accountants can make decisions with as much relative accuracy as they can produce detailed figures. We have also found that the auditors are as progressive in their approach to this matter as we have tried to be and that an enthusiastic staff, given a target, clear guidance and encouragement, can always do better than they themselves think possible.

NORTH AMERICAN COMMENTARY—LXXXIV

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(Canada)

Professor of Accounting, McGill University, Montreal

*The Journal of Accountancy,
New York, August and September***Integrity of the Tax Laws**

AN article by Professor Stanley Surrey in the *Harvard Law Review* is examined by the editorial. Addressed particularly to lawyers and Bar associations, urging support of the Treasury in its maintenance of the integrity of the tax laws, it is reported as praising the American Institute of Certified Public Accountants for its activity in recommending elimination of various tax provisions which unjustly favour special groups.

The editorial comments that some of the Institute's recommendations drew strong protest from some members. It warns of the serious consequences of any loss of public confidence in the equity of the tax laws, and it praises Professor Surrey for making it clear that here is a field for service of the highest order.

Determination of Business Profits

Mr Marquis G. Eaton, C.P.A., President of the American Institute, suggests that the following 'postulates' in the calculation of business income may need re-examination by the accounting profession:

- (1) that the monetary unit is the best common denominator for measuring business activities;
- (2) that the corporation may be treated as a permanent institution;
- (3) that profit should be recognized only on completion of a transaction.

Warning also that economic and social changes are creating new problems, he points to income tax and the regulatory bodies, to pension plans, mergers and consolidations, the current huge expenditures on research, and the sale and lease back of plants and machinery.

As to the accounting effect of changing money values, Mr Eaton says the American Institute is planning soon a survey such as that of ten years ago, when the opinions of hundreds of corporate executives were found to be widely divided. He comments that few companies have followed the American Institute's suggestion that supple-

mental published accounts might show the amount of profit to be retained to make good the difference between depreciation allowances and replacement costs.

'Thin' Corporations

This title is given to corporations organized with very small amounts of assets represented by capital stock, the remainder being provided by loans payable to the stockholders, so that interest is allowed for tax purposes where dividends would not be deductible.

Mr T. Grayson Maddrea, C.P.A., says the practice is particularly popular in land development activities, where repayment of the loan allows funds to be withdrawn without taxation in the hands of the recipient. While he cites a case where the ratio 5,482:1 for loans payable to capital stock was disallowed as unreasonable, Mr Maddrea refers to another in which the Court of Appeal reversed the Tax Court's rejection of a capital stock of \$1,050 as against notes to stockholders of \$173,900. In this case the market value of the stock made the ratio 1:74:1. The Court is quoted as saying that there is

'no rule which permits the Commissioner to dictate what portion of a corporation's operations shall be provided for by equity financing rather than by debt'.

Deferred Income Tax

Mr Carman G. Blough, C.P.A., Director of Research of the American Institute, reports that the Committee on Accounting Procedure has appointed a subcommittee to consider the results in practice of Bulletin 44, which provides that taxes deferred, through use of declining balance depreciation for tax purposes as against the straight-line method in the books, need not be recognized in the accounts unless they are reasonably certain to accrue a relatively few years later and are material in amount.

He says that accumulating evidence seems to reveal a number of cases of serious distortion of net income through omitting to allocate the deferred tax. It may be remarked that in Canada, the Canadian Institute of Chartered Accountants

has recommended recognition of such tax deferrals in the published accounts, and expert opinion is widely divided on the subject.

Lawyer Employees of Accountant Firms

Arising out of an inquiry made of the American Institute by Dean Erwin N. Griswold of the Harvard Law School, Mr Alvin R. Jennings, senior partner of the firm of Lybrand, Ross Bros. & Montgomery, explains his firm's practice of employing lawyers. He says that a relatively few men with law degrees are employed but, almost without exception, they have never practised law and are also C.P.A.s or are preparing to become such. He suggests that the Bar might well itself restrict the right of a member to practise law while engaged in accountancy. A directive of the firm to all its partners is published advising that, to avoid the unwarranted implication that it is holding itself out as competent to practise outside the field of public accounting, no public reference should be made to law degrees held by partners or staff.

Agreeing that if there are any cases where C.P.A.s have employed lawyers on a salary basis to deal with legal aspects of tax work for clients, this must be condemned, the editorial recommends that accounting firms employing men with law degrees should follow the policies of Mr Jennings's firm.

Generally Accepted Accounting Principles and Specialized Fields

In the United States, the auditor's report includes a statement as to whether or not the accounts conform to generally accepted accounting principles. Mr Samuel J. Broad, C.P.A., a Past President of the American Institute and past chairman of its Committee on Accounting Procedure, questions the fairness of requiring this statement in the case of Governmental and semi-Governmental non-profit organizations and certain types of regulated and charitable institutions. He suggests the underlying concept of usefulness as the essential criterion by which such accounts should be judged. Thus in the case of insurance companies he states that State regulatory laws are primarily concerned with solvency in the interests of policy-holders. Consequently, for example, investments are required to be included at market value, while no provision is made for income tax on any unrealized appreciation in value, so that the cardinal principle of matching costs and related income is violated.

Mr Broad asks whether, if statements clearly

indicate what they do purport to show, there is any need for the gratuitous statement that they depart from generally accepted principles established for other purposes - 'with the cloud which goes along with such statement'.

The Canadian Chartered Accountant, Toronto, August

Prospectus Certificates of Profits

Telling of his examination of earnings certificates by practising accountants from thirty to forty published prospectuses, Mr B. J. B. Galvin, C.A., says that almost all the earnings reports spanned about ten years as against the minimum of three required by law. He suggests that the earnings summary might profitably be replaced by annual income statements, as in the case of The Bell Telephone Company of Canada. This company virtually reproduced the annual income statements of ten years, with suitable amendments to certain items, on a page measuring 10 inches by 7 inches.

As to adjustments to give a reasonable picture, Mr Galvin thinks these should be comparatively few, since the main object in practice is to reflect the extent of managerial ability rather than any 'norm' of profits. He says that the investigation revealed few cases where the net prospectus profits differed substantially from the annual reports, and that while unusually large profits or losses on fixed assets, patent amortizations, etc., were sometimes mentioned in footnotes, often this was not so. Indeed, accountants seemed reluctant to classify transactions as 'non-recurring'. Thus he concludes that there seems to be some evidence that future practice may require a ten years' history of earnings reflected by unabridged annual income statements, or at least a reconciliation of these with any earnings summary.

Confirmation of Receivables

As the result of a sample survey by the research department of the Canadian Institute of Chartered Accountants, the Committee on Accounting and Auditing Research is reported by the Director of Research to be contemplating publication of a bulletin which might recognize direct confirmation of accounts receivable as a standard auditing procedure. Out of 152 firms, he says that 125 clearly favoured confirmation and the others proposed that it should be standard practice 'only when internal control is inadequate'. Of the 125, confirmation of 'at least a sample' was preferred by 89, while 36 favoured confirmation of all receivables.

BUDGETING AND THE CORRESPONDING MODERNIZATION OF ACCOUNTING

by J. P. WILSON, F.C.W.A., A.C.I.S.

A paper presented on Tuesday, September 10th, in Amsterdam, at a business session of the Seventh International Congress of Accountants.

Introduction

THE purpose of this paper is to consider the effects which the introduction of budgeting has had upon the principles and practice of accounting. It is possible that some of these effects were not specifically intended when budgeting was introduced, but have been a natural yet unforeseen outcome of budgeting. In this paper an attempt is made to analyse these effects and to set them out in a rational order.

Definition

For the purpose of this paper the term budgeting is assumed to include the full operation of budgeting, which is frequently described as budgetary control, and in addition standard costing which can be considered as detailed budgeting, particularly in its application to the costs of products.

The Effect upon the Principles of Accounting

The general effect of the introduction of budgeting upon the principles of accounting has been to promote the use of an accounting system to provide more and better information. In other words an accounting system is now required to do more work than it has ever done before, and if this is to be accomplished successfully and without undue clerical effort, the accounting practices must be carefully designed. Particular instances of improved information are as follows:

Management accounting

The introduction of budgeting has greatly extended the use which is made of accounting information as the basis for action by the management of a business. A distinction might be drawn between this use of accounting information, which can be described as management accounting, and the use of accounting information as a means of safeguarding the assets of a business, which might be termed ownership accounting. The annual profit and loss account and balance sheet, while to some extent used for management accounting purposes, have primarily been a report to the owners upon the progress of their

business and the value of their property. The use of accounting for ownership purposes has a direct value. It is essential, for example, to keep accounts of the transactions with each customer in order to render statements promptly and correctly and to obtain payment of moneys due. Management accounting has an indirect value. It provides information which

has a value only in so far as it is used by the management of a business as the basis for its decisions or for its control of the business in conformity with the decisions taken. For this purpose accounting information must be made available quickly at frequent intervals. For example, ownership accounting may require the presentation of a profit and loss account and balance sheet once a year, although in this connection the practice is growing for companies to present their shareholders with financial results every six months or even every quarter; but management accounting requires the presentation of a profit and loss account and balance sheet every month. In addition the content of these financial statements must be more informative if they are to be used as the basis for management action, and this has largely



Mr J. P. Wilson

been made possible by the incorporation of budget figures.

Explanation of financial results

Prior to the introduction of budgeting a profit and loss account prepared on conventional accounting lines would show the profit or loss that had been made in the period, but would not readily show the explanation of this profit or loss. It would usually have been possible to ascertain from such a profit and loss account for a period of six months or more the major long-term factors contributing to the result achieved, but this form of statement would not have been sufficiently sensitive to show the reasons for the results of a period as short as one month. By the introduction of budgeting it has been possible to revise the form of short period profit and loss accounts so that not only is shown the result achieved, but this result is measured against the standard

result planned and attention drawn to divergences from plan. It is a further advantage that the preparation of financial results by a system which provides for the explanation of these results is a check upon the accuracy of the results. Where the accounting system is such that explanation of the results cannot be readily obtained, an inaccurate result may be unwittingly accepted.

Improvement in the value of information provided

An important effect of the introduction of budgeting upon accounting has been to show that in the past accounts have been designed in many cases to give information under certain headings which is of little or no value, and not to give other information which is really valuable. For example, many accounting systems have been designed to analyse actual expenditure to specific orders or products. By this means the excess costs being incurred have been buried from sight by being split over a large number of so-called actual cost accounts. Upon the introduction of budgeting, procedures of accounting have been redesigned to show instead the more valuable information concerning the excess costs – the amounts, the departments in which they arise and their causes.

Accounting control of performance

The introduction of budgeting has given rise to the use of the accounting system to provide information for the control of performance. This information, which can be provided as a matter of routine at frequent intervals, and with a much greater degree of accuracy owing to the integration of such statistics within the accounting system, is far more effective for the control of performance than statistics prepared in isolation from the accounting system, or impressions gained from spasmodic inspections. For example, statistics of sales performance in respect of volume, selling prices and pattern of sales, and of production performance in respect of output and efficiency, can be incorporated within the accounts. The accounting control of cost performance can also be effected on the following lines.

The use of budgeting and standard costs enables costs to be controlled by their measurement against the standards embodied in the budgets and standard costs. The significant statistics are the variances between standard cost and actual cost and by the employment of the appropriate accounting techniques these variances can be analysed to such causes as:

- Material prices
- Material usage efficiency.
- Labour wage rates.
- Labour efficiency.
- Over- or under-spending.
- Capacity employed.
- Revision of budgets due to external causes.

The careful analysis of variance to causes enables a better control of performance to be maintained, because the effects on cost of external events such as

a national wages award, or a fall in market demand leading to unused manufacturing capacity, can be segregated from the effects on cost due to the performance of the management.

In the presentation of information for the control of performance it is essential that the information should be provided under the headings of the individuals responsible for the performance. For example, sales statistics might be presented in respect of each sales area in order to control the performance of the area sales manager; or production and cost statistics might be prepared in respect of each production department in order to control the performance of the departmental manager.

Decentralized cost and performance control

The use of budgeting to provide information for the control of performance by laying emphasis upon the results achieved by the individuals controlling departments of the business has had the effect of devolving performance and cost control upon departmental managers and in some cases to the supervisors of sections of a department. This development has necessitated a change in the accounting system to give an analysis of costs to departments in place of an analysis to jobs carried out. It is the departmental manager's responsibility to control the cost of the jobs on which he is engaged in order to produce the most favourable variance possible. By this means the departmental manager is stimulated to keep closely informed about the work passing through his department, so that an analysis of actual costs to jobs is in general unnecessary.

Stock valuation

Where the principles of budgetary control have been adopted to the extent of using standard prices for the valuation of materials, the accounting is not only simplified but clearer information is presented to management. The use of standard prices for materials enables detailed stores accounts in quantity and value to be eliminated, and requires a stores control account only to be maintained in value. Clearer information is available to management because movements of prices are segregated in a purchase price variance account and the stock account then reflects movements in the volume and mix of the materials held. It does not necessarily follow that the valuation of stock at standard material prices involves the acceptance of this valuation for the annual accounts to be presented to the owners of the business, as the valuation at standard material prices can be adjusted for this purpose.

Effect upon the Techniques of Accounting

The effect of the introduction of budgetary control upon the techniques of accounting will also largely depend upon the degree to which budgetary control has been adopted. In certain cases its use might be limited to the measurement of figures, obtained by normal accounting processes, in which case the effect

upon the technique of accounting would be very small. The effect is much greater when budgetary control has been extended to include standard costing integrated within the accounting system. In these circumstances features of the effect upon accounting are as follows:

Frequency and speed of presentation of financial results

The introduction of budgetary control by making accounts an instrument of control has necessitated the preparation, at frequent intervals, usually of one month, of a profit and loss account and balance sheet. It has also necessitated presentation as soon as possible after the end of the period under review. The improvement in the speed of presentation is mainly a matter of conscious effort on the part of the accounting department, but the following techniques have been found of value for this purpose:

The adoption of a full method of standard costing whereby the value of stock and work in progress is ascertained automatically from the accounts without the necessity for any physical stock-taking or detailed valuation of stock.

The adoption of thirteen four-weekly accounting periods of twelve periods of four or five weeks in each year.

The use of valued goods received notes to avoid any delay due to late receipt of suppliers' invoices.

The use of stock control accounts

Prior to the introduction of budgetary control the accounting technique widely used for ascertaining the consumption of materials was by the formula

Value of opening stock

add

Purchases

subtract

Value of closing stock.

The disadvantages of this method are:

There is no accounting control over stocks.

It is necessary to list all stocks, either from quantity stock records or by physical stock-taking, at the end of each period.

The pattern of usage of the material is not revealed, such as the value of raw material used in each department or the value of dispatches of finished goods to customers.

With the introduction of budgetary control and standard costing the possibility of using stock control accounts has been increased by the following advantages:

The use of standard prices for materials simplifies stores accounting, and renders unnecessary stores accounts carrying prices or values and the calculations to ascertain the appropriate price for each issue.

The use of standard cost accounting techniques, whereby cost variances are eliminated at the purchase analysis stage or as they arise in the departmental operating accounts, enables work in progress and stocks of finished goods to be valued

in the accounts at known standard costs. Dispatches of finished goods to customers by extension at the appropriate product standard costs can therefore be credited to the work in progress account or finished stock account at the same value at which they were previously debited.

The major effects of the use of stock control accounts under the foregoing conditions have been:

An accounting control of stocks at very little cost.

The elimination of period-end stock-takings, and valuation by the introduction of stock control accounts into the accounting system.

The positive valuation of the usage of material by the valuation of issues, giving an analysis of usage to the various departments for comparison with standard usage and establishing departmental material usage efficiencies.

The positive ascertainment of the cost of goods sold by the valuation of actual dispatches at the appropriate product standard cost. This positive method can be applied in two forms:

1. The goods dispatched as recorded on each invoice can be extended at standard cost, so arriving at a standard cost of sales for each dispatch. This method is sometimes known as the double pricing method, as the invoices are priced with the sales value and the cost of sales value.

2. The sales invoices for a period are summarized to show the total quantity of each product sold and these totals extended by the appropriate standard costs of the products to give a total cost of sales.

The advantage of a positive ascertainment of cost of sales is that an analysis of this cost can be prepared parallel to an analysis of sales, and therefore dependent upon the detail in which these analyses are prepared, the resultant standard profit can be analysed to products, markets, areas, or even customers. This information is of considerable value for the explanation of the financial results of each period.

The interpolation of assessments into accounts

The introduction of budgetary control, especially as extended to standard costing, has resulted in the accounts of a business carrying a much larger proportion of figures which are not facts so much as assessments. It is possible that under normal accounting systems prior to the introduction of budgetary control the only assessments were the value of stock and the depreciation written off fixed assets. Under an accounting system incorporating standard costs it must be recognized that the following figures entering into the accounts are examples of assessments rather than of facts:

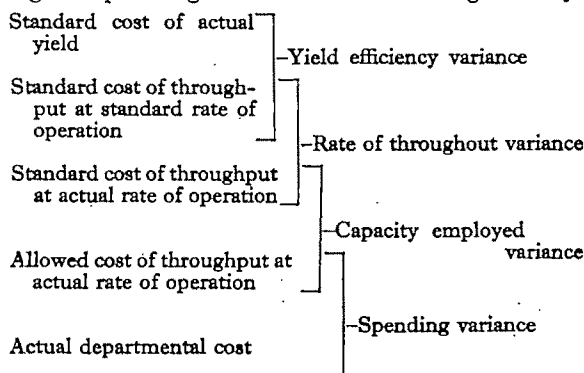
Depreciation.

Standard cost of production.

The transfer of charges from the administrative and service departments to the departments served.

The value of stocks when carried at standard prices.

Further examples of assessments are the various valuations of departmental production used in order to analyse the total departmental variance, the following example being taken from the oil refining industry:



While a modern accounting system commences with the hard facts of the money paid out for plant, supplies, wages and expenses and ends with the hard fact of money received from customers for the sale of its products, there is between these hard facts the interpolation of assessments such as these shown above, which are the means of providing the management with valuable information for control purposes. By their nature these figures cannot be completely substantiated but nevertheless they serve to present a picture, in which detail may not be necessary and from which lessons can be drawn.

The segregation of policy or abnormal items

Regard for the distinction between ownership accounting and management accounting affects the accounting treatment of provisions which as a matter of financial prudence may be made in the annual accounts as presented to the owners of the business. If these provisions, as for the heavy writing-down of stock values or abnormal depreciation, are not to distort the accounts as presented for management purposes, it is necessary to segregate such items. (See line 28 of Appendix A.) The acceptance of this practice is all the more necessary in view of the increasing tendency to integrate cost accounts within the general accounting system.

The classification of revenue expenditure

Prior to the introduction of budgetary control the customary analysis of revenue expenditure was by the nature of the expense such as materials, wages, salaries, electricity, etc. With the introduction of budgetary control it has become necessary to analyse expenses to the departments by which the expense is incurred. For general accounting purposes it is still necessary to obtain an analysis of expenditure by the nature of the expense. To meet both of these requirements the following arrangements can be made:

The adoption of a two-part code for the classification of revenue expenditure, the first part indicating the department incurring the charge and the second part the nature of the expense.

A first analysis of revenue expenditure to the accounts covering the nature of the expenditure. Subsequently by means of a credit in a special transfer account the same expenditure can be debited in the accounts for the departments of the business.

Definition in the departmental budgets of the classifications of expense controllable by, and therefore chargeable to, each department.

The establishment of the principle that in the primary analysis of expense all expenditure should be charged to the departments responsible, and no charge should be made to any departments on an arbitrary percentage basis.

The inclusion of notional departments, such as general works - administration and personnel, for those expenses which are controllable by the works management and not by departments as commonly understood.

Collaboration between the accountant and other functions of the business

The developments in accounting consequent upon the introduction of budgetary control have reduced the self-sufficiency of the accountant. The accounting system by taking into its purview a much greater range of the operations of the business, as distinct from being confined to those transactions involving the passing of money, has become more dependent upon the recording procedures throughout the business for the provision of its basic data. It is therefore essential that in laying down any recording procedures within a business the requirements for accounting purposes should be considered. The accounting system is also required to incorporate budgeted figures in the production of which the accountant may take only a part. For example, the budgeted figures of sales may be very largely the work of a market analyst in the sales department; the budgeted cost of the material content of a product may be largely the work of a chemist; and the budgeted conversion cost of a product may be largely the work of a time study engineer. The tendency would appear to be for the other departments of the business to provide the physical standard whether of sales, material used or time taken on different processes, and for the accountant to convert this data into terms of money.

Modern form of monthly profit and loss account

An example of one of the many possible forms of monthly profit and loss account used primarily for management purposes is set out in Appendix A. This form has been simplified, as, for example, by the exclusion of year-to-date figures, so that the principles can be clearly shown. The main feature of such a form of profit and loss account is the explanation of the final result for the period by the comparison of actual with budgeted performances. The following are more detailed comments with reference to the lines of the form:

1. In this statement the intention is to show separately the results of manufacturing and trading. The manufacturing account would be amplified as necessary by supporting schedules giving further detail.

7. The departmental cost savings or excesses would be analysed on supporting schedules showing the performance of individual departments.

13. Budgeted sales are shown as a measure of the actual sales achieved and the resulting difference analysed to gain or loss of sales value in respect of volume or selling prices. This is an example of the interpolation of an assessment into the accounts.

13 and 19. Using a positive method of ascertaining cost of sales by the evaluation of dispatches, it is possible for the results shown on lines 13-19 of this statement to be analysed on supplementary schedules to product groups, markets, sales areas, etc.

20, 21 and 22. Selling and distribution expenses could also be analysed on supplementary schedules to the departments, and therefore the individuals, responsible for the expenditure.

24. The profit and loss account on this statement is designed to bring together the results of the different activities of the business.

27. The profit for management purposes shown on this line is intended to be the net financial result achieved by the management during the period, as explained by the foregoing figures on the statement. It should be a real measure of the management's success or failure, undistorted by any provisions made for ownership accounting purposes.

28 and 29. While it is vitally necessary to show the profit for management purposes as on line 27, the management of a business will normally require to know the profit for each period, and particularly for the year to date, in terms of the annual profit. For this reason line 28 shows the adjustment to be made to the profit for management purposes to arrive at a profit on the annual accounts basis. In this particular example it has been assumed that it is the practice for annual accounts purposes to write down finished stocks to a figure substantially lower than the standard production cost: as in this finished stocks have been reduced the effect of the adjustment is to increase the profit calculated on the annual accounts basis. A member of the management who is interested in the annual profit as reported to the owners of the business would therefore direct his attention to the final line of the statement.

APPENDIX A

FORM OF MONTHLY PROFIT AND LOSS ACCOUNT

	£	£	£
1. MANUFACTURING ACCOUNT			
2. Actual cost of production			110,000
3. Adjust for Cost savings (+) or excess (-)			
4. General: Material prices	- 9,000		
5. Capacity employed	- 4,000		
6. Budget revisions	- 5,000	- 18,000	
7. Departmental: Material usage efficiency	+ 2,000		
8. Labour: wage rates	- 1,000		
9. Labour: efficiency	+ 5,000		
10. Spending	+ 2,000	+ 8,000	- 10,000
11. Standard cost of production			100,000
12. TRADING ACCOUNT			
13. Budgeted sales			160,000
14. Adjust for gain (+) or loss (-)			
15. Volume		- 6,000	
16. Selling prices		- 4,000	- 10,000
17. Actual sales			150,000
18. Less standard production cost of goods sold			120,000
19.			30,000
20. Less Selling and distribution expenses: budgeted		10,000	
21. Adjust for cost saving (+) or excess (-)		- 2,000	
22. Actual selling expenses			12,000
23. Profit on trading			£18,000
24. PROFIT AND LOSS ACCOUNT			
25. Profit on trading (line 23)			18,000
26. Net excess cost of production (line 10)			- 10,000
27. Total profit for management purposes			8,000
28. Adjustment to annual accounts basis			+ 3,000
29. Net profit before taxation on annual accounts basis			£11,000

Weekly Notes

Author's Posthumous Royalties not Taxable

The Court of Appeal has dismissed the appeal by the Inland Revenue in the case of *Carson v. Executor of Peter Cheyney* (*The Times*, October 22nd). This well-known author died on June 26th, 1951, and it was common ground that he carried on his profession until his death, so that the royalties he received under contracts with various publishers were assessable during his life under Case II of Schedule D, as part of his professional earnings. Accordingly, the proper subject of tax was not the amount of royalties under each contract, but the balance of Mr Cheyney's profits and gains as an author, after deducting expenditure. However, after his death, assessments had been raised on royalties received under contracts made during his lifetime. The General Commissioners discharged these assessments and Harman, J., affirmed their decision,¹ hence the Revenue appeal to the Court of Appeal.

Jenkins, L.J., reading the judgment of the Court, said the question was whether, on the cessation of the profession, the royalties changed their nature from professional receipts assessable under Case II to annual payments assessable under Case III. That question had already been decided against the Crown in *Stainer's Executors v. Purchase* (30 A.T.C. 291) on closely comparable facts. The fact that copyright was a form of property made no material difference; the royalties still constituted a reward for professional activities. Leave to appeal to the House of Lords was given.

Freemasonry not for the Advancement of Religion

Section 8 (1) of the Rating and Valuation (Miscellaneous Provisions) Act, 1955, provides for partial rating relief where a hereditament is 'occupied for the purposes of an organization . . . which is not established or conducted for profit and whose main objects are charitable or are otherwise concerned with the advancement of religion, education or social welfare'. The Divisional Court has rejected an appeal for relief under this section by the United Grand Lodge of Ancient Free and Accepted Masons of England in respect of Freemasons' Hall, Great Queen Street, London, occupied by them (*The Times*, October 17th). The appellants did not claim to be a charity, but argued that their main object was the advancement of religion.

Donovan, J., reading the judgment of the Court, reviewed the 'antient charges' particularized in a book called *United Grand Lodge of England, Constitution*. He said that these 'charges' were in form exhortations rather than objects, and admirable as

they were, it seemed impossible to say that they added up to the advancement of religion. The contrast between masonry and organizations which admittedly did set out to advance religion was, he said, striking. What masonry in effect said to its members was, 'whatever your religion, or your mode of worship, believe in a Supreme Creator, and lead a good moral life'. That was not the same thing as the advancement of religion.

Fewer New Factory Plans

The latest available figures for new factory schemes cover a period prior to the increase in Bank rate and could only have been influenced by it in the closing two weeks of the third quarter of the year. During that quarter, schemes put forward for approval, according to the Board of Trade's figures, were only 16.5 million sq. ft., a drop of 17 per cent on the same period of 1956. To some extent the quarter's performance was affected by three large schemes, two in steel and one in oil, while in the third quarter last year there was one very big steel expansion scheme and one for oil. Even when these few large items are excluded, the drop on the year was about 16 per cent.

The fact is that the decline last quarter was to a level lower than any comparable period since 1953. The building industry is therefore in the position of having plenty of work in finishing off existing contracts but a declining order book. The inference from these figures is that the investment boom was a spent force before the increase in Bank rate to 7 per cent last month.

Re-equipment in Cotton

On the eve of the annual Cotton Board conference at Harrogate, a conference which was engaged to some extent with the question of free trade in Europe, the Northern Counties Textile Trades' Federation expressed its views on re-equipment and shift-working. This Federation represents eight trade unions on the weaving side of the cotton textile industry and their view on such matters as re-equipment and multiple shift-working are important if manufacturing costs are to be reduced.

The Federation's annual report says that the object of the trade unions so far as shift-work policy is concerned is to encourage re-equipment. Where companies are re-equipped, they will be encouraged to adopt a shift system. The Federation is opposed to companies working their machines to death and then closing down.

There is a good deal to be said for the Unions' attitude. There are still a large number of small weaving sheds in Lancashire with fairly out-of-date equipment and limited capital resources. Much of this equipment has already been written off by an

¹ See 'Weekly Notes' in our issue dated June 22nd and article entitled 'Deceased Author's Royalties', by Laurence Webley, LL.B., issue dated September 28th.

older generation and such companies can afford to keep in operation for a limited period of time at competitive prices provided they do not have to buy new machines. Where such companies with this kind of policy are to be found there is bound to be defeatism and an unwillingness to develop new techniques of production or accept modern methods of merchandising. But unless these methods are adopted the Lancashire cotton industry will be in a very weak competitive position in the European market.

Scandinavian Customs Union

It had been thought at one time that the proposals for a free trade area in Western Europe would overtake the negotiations for a Nordic customs union which have been under consideration for some time. The Swedes have been more enthusiastic about such an arrangement than the Norwegians and Danes, and Norway in particular has had serious reservations about exposing some of its high cost industries to Swedish competition.

In the event, a customs union may well be formed before the free trade area arrives. A long report on Scandinavian economic co-operation was published over the week-end covering something like 80 per cent of Scandinavian trade. The next meeting of the Nordic Council (which includes Finland as well as the other three countries) will not take place until next February so it is not likely that a Nordic economic union can be born much before the autumn of 1958 or early 1959. If that should come about, however, it is likely to reach fruition just

ahead of the free trade, area even if the free trade area negotiations are as rapid as the optimists would like them to be.

Among the goods proposed for inclusion in the union are timber and its derivative products, semi-manufactured metal goods, electrical equipment, chemicals and pharmaceuticals. The most important goods excluded from the scheme as proposed in the report are agricultural products, foodstuffs, fish and fish products, yarns, textiles, clothing and glassware. It is proposed that the duties on most of these items should come off immediately after ratification of a treaty, but in the case of machinery and electrical equipment there is a scheme for a five to ten years' transitional period and provision is also made for cushioning Finland against the full impact of free trade for a few years. Tariffs outward to the rest of the world are likely to be low to moderate since Scandinavia is already a low tariff area. The scheme provides for the establishment of an investment bank, an idea already written into the Treaty of Rome for the establishment of the European Common Market. How effective such a bank would be in practice is difficult to say since all four countries are short of capital to support it and there is no outside source for a capital subsidy.

Since Scandinavia is a low tariff area, the effect on British exports is not likely to be disastrous but it will certainly help such industries as the Swedish electrical machinery companies which are already highly competitive throughout the Scandinavian market and overseas.

Finance and Commerce

World political and economic uncertainties continue to make for nervous and uncertain stock and foreign exchange market conditions. Investment business is kept to a minimum and the stock-markets are liable to wide price fluctuations. There seems little sign of any immediate relief.

Rael-Brook Holdings

The reprint this week gives the first accounts of Rael-Brook Holdings Ltd, a name that has come rapidly to the fore in shirt-making. They show a trading profit of £181,791 which is stated to compare with £97,015 for the previous year, the accounts very commendably bringing in this comparative figure from the Offer for Sale. Such comparison between first accounts and the document on which the public have become shareholders is not always possible. We have known cases where profits in first accounts have been on a different basis from those in the document. The prospective profit given in the Offer for Sale was 'not less than £140,000' and the prospect therefore has been exceeded by a considerable margin.

The Offer for Sale was made in February 1957 when 500,000 4s convertible preferred ordinary shares were offered to the public at 10s each. Over 6,000 applications were received and the amount was more than $3\frac{1}{2}$ times oversubscribed. The current price of the shares is now about 7s 9d. The remaining £200,000 of capital in 4s ordinary shares is still privately held.

The convertible preferred carry the right to a non-cumulative 30 per cent and to a further payment equal to one-tenth of any payment on the ordinary shares. Holders have the right to convert in whole or part into ordinary shares on a one-for-one basis between 1960 and 1965 and an undertaking has been given to obtain a quotation for the ordinary not later than April 19th, 1960.

Capital Rights

As on a previous occasion when we dealt with a company with a capital structure and particular rights outside the normal, we suggest that the capital and the rights should be fully stated in the accounts. It is material to an understanding of the shareholders'

position that one should know the preferred ordinary dividend is non-cumulative, that holders have a prior right to 30 per cent, and the conversion terms. 'Convertible preferred ordinary' does not tell the full story as, for instance, '6 per cent first cumulative preference' does.

In a winding-up, the Rael-Brook preferred ordinary are entitled to repayment before the ordinary, and share in the balance of assets rateably according to the number of shares held but so that the amount distributed in respect of each ordinary shall be ten times the amount distributed in respect of each preferred ordinary.

A further important capital provision is that no further shares ranking in priority to or *pari passu* with the preferred ordinary may be created without the sanction of extraordinary resolutions passed at separate meetings of the preferred ordinary and the ordinary holders. These provisions also are material and, we suggest, could well be included in a short paragraph giving the capital rights in each year's accounts.

Rapid Growth

The directors of Rael-Brook Holdings have every reason to be satisfied with the progress so far of the business they have built up. Mr Harry Rael-Brook said in the Offer for Sale that he and his brother, the joint managing director, had been connected with

the business since its inception in 1947. At the time of the offer, they were, he said, respectively 34 and 33 years of age.

The record of profits given in the offer was as follows: years to April 19th, 1948, £119; 1949, £2,455; 1950, £7,312; 1951, £19,099; 1952, £12,044; 1953, £14,953; 1954, £8,562; 1955, £12,940; 1956, £97,015; and for the first half of the year of the present accounts, £96,658. The exceptional rise in 1956, the offer stated, was due to increased advertising expenditure coupled with a marked increase in production.

In his first statement as chairman, Mr Harry Rael-Brook refers briefly to the start with a handful of workers and a profit of £119 and the growth to over 900 employees and a profit of £154,185. For the sake of the record, however, the query may be raised: if £119 is in the same order as £97,015 as shown in the offer and £97,015 is the true comparison to £181,791, ought not £154,185 to be £181,791?

Money Market

The market syndicate's bid for Treasury bills was held at £98 7s on October 18th and achieved 47 per cent allotment. Applications totalled £408,410,000 for the £270 million of bills offered and the average rate was £6 12s 0.56d per cent. This week's offer is £260 million.

RAEL-BROOK HOLDINGS LIMITED BALANCE SHEET as at 19th April, 1957.

	£	£		£
SHARE CAPITAL AND RESERVES			SUBSIDIARY COMPANIES	
SHARE CAPITAL—Authorised and Issued			Shares at cost	
500,000 Convertible Preferred Ordinary Shares of 4s. each fully paid		100,000		300,000
1,000,000 Ordinary Shares of 4s. each fully paid		200,000		
		300,000	PRELIMINARY EXPENSES at cost	
				10,000
REVENUE RESERVE				
Profit and Loss Account		220		
		300,220		
CURRENT LIABILITIES AND PROVISIONS				
Sundry Creditors and Accrued Charges		122	SIGNED ON BEHALF OF THE BOARD, HARRY RAE-BROOK } Directors. S. BUCHMAN }	
Profits Tax		1,600		
Proposed Dividend on Convertible Preferred Ordinary Shares less Income Tax		3,355		
Amount due to a Subsidiary Company		4,703		
		9,780		
		<u>£310,000</u>		<u>£310,000</u>

REPORT OF THE AUDITORS TO THE MEMBERS OF RAE-BROOK HOLDINGS LIMITED

We have examined the above Balance Sheet which is in agreement with the Company's books of account, and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. Proper books of account have been kept by the Company so far as appears from our examination thereof.

In our opinion and to the best of our information and according to the explanations given to us the said Balance Sheet gives the information required by the Companies Act, 1948, in the manner so required, and presents a true and fair view of the state of affairs as at 19th April, 1957.

We have also examined the annexed Consolidated Balance Sheet and Consolidated Profit and Loss Account of the Company and its subsidiaries with the audited accounts of these companies. In our opinion such Consolidated Balance Sheet and Consolidated Profit and Loss Account have been properly prepared in accordance with the Companies Act, 1948, so as to present a true and fair view respectively of the state of affairs and of the profit of Rael-Brook Holdings Limited and its Subsidiaries.

ADELAIDE HOUSE,
LONDON BRIDGE,
LONDON, E.C.4.

6th September, 1957.

GEO. LITTLE, SEBIRE & CO.,
Chartered Accountants.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Dispensing with Receipts

SIR, - It is already abundantly clear that much time and expense will be saved by the discontinuance of the practice of issuing receipts which seems likely to become fairly general, but I am sure that others besides myself are disappointed to find that some accountants are taking a reactionary line.

As an instance of this, I have seen a circular letter from a large combine asking for official receipts to continue to be sent, for the reason that this is in accordance with the wishes of their auditors. I can quite understand that in some cases, especially where small businesses are concerned, auditors are naturally reluctant to agree to dispense with any documentary evidence which may help to substantiate payments made by their clients, but it does seem to me that some accountants tend to regard a receipt as having a greater value than it really has.

There would be a further saving if payers adopted the practice of sending simple non-returnable payment slips with their cheques instead of, as is so often the case at present, invoices or statements which have to be returned to them.

As an alternative to payment slips, invoices and/or statements could be rendered in duplicate so that one copy could be retained by the payer, the other being sent with his remittance, clearly marked as non-returnable.

These are important matters of routine to which, in my view, the accountancy profession could profitably devote a great deal of thought. With steadily rising costs all round, the importance of saving unnecessary expenditure on postage and receipt stamps, to say nothing of the labour involved, cannot be over-emphasized.

Yours faithfully,

Richmond, Surrey.

C. S. HARDIMAN.

'Accounting for Inflation'

SIR, - Mr Allan's interesting article on 'Accounting for inflation' (October 5th issue), appears to contain an error of omission in the method adopted for the raising of 'Capital depreciation reserve'. For illustration we may take the balance sheet set out on page 390. The original capital of £1,500 is correctly shown on the adjusted basis as being worth £2,246 in terms of today's currency. But I think that Mr Allan is wrong in concluding that the 'Capital depreciation reserve' must necessarily be charged against the profit and loss account, which, in his example, shows that the proprietor's capital has diminished by £101.

The root of the problem surely lies in the assets figure of £2,145. If this is wholly in cash or its equivalent, then Mr Allan cannot be faulted. But if it is in fixed assets which have retained their real (not

monetary) value, then the balance sheet is misleading. For instance, let us suppose that the original capital of £1,500 was used to buy a piece of land, and that this piece of land has exactly maintained its real value. Then, expressed in terms of today's currency, the assets figure has to be increased by £746, which would bring back the revenue reserves to the original figure of £645.

In short, Mr Allan's adjusted balance sheet still fails to give a consistent picture, because capital and current assets are expressed in today's currency, while fixed assets are shown in terms of the currency values at date of purchase. We must therefore revert to the method of revaluing fixed assets by transfer to 'Capital depreciation reserve' if our balance sheet is to give a true and fair view in terms of an inflated currency.

Yours faithfully,

A. W. BOWEN.

London, EC3.

[Mr J. F. Allan writes: It is, of course, true that where fixed assets have retained their real (not monetary) value, *and are not subject to depreciation*, the method I have suggested can be misleading. This is likely to arise normally, however, only in the case of freehold land. For all depreciating fixed assets, including buildings, replacement will ultimately be required, and I suggest that revaluation is wholly unnecessary and should be avoided as being insufficiently 'independent of personal opinion'. It is because of the emphasis on this requirement, contained in paragraph 289 of Recommendation XV, that I have temporarily abandoned the idea of revaluing freehold land.

As regards buildings, plant, etc., I see no departure from the true and fair view if a balance sheet fails to reflect an improvement in saleable value of an asset which is unlikely to be sold until worn out or obsolete.]

Training for the Profession

SIR, - In his letter in your issue of October 12th, Mr J. N. Stephens says that the arguments in my letter in your issue of September 28th leave the impression that he is suggesting that training in industry could take the place of training in the profession. I quote from Mr Stephens' letter in your issue of September 14th, 'It is suggested that two years in a professional office should be sufficient . . . and later 'During the last three years of training at least one year should be spent in industry, two years if desired . . .'. I understood this to suggest that training in industry should replace training in the profession to a substantial extent and cannot see what other construction Mr Stephens' remarks would bear.

For the rest, these matters are, in some degree, a question, as Mr Stephens says, of opinion but also, I suggest of experience. My experience seems to lead to conclusions materially differing from his.

Upon what Mr Stephens describes as the 'traditional view' that an accountant interested in an industrial career really benefits from two years in the profession after qualifying I am quite unrepentant. Industry is, in my view, too ready to accept a newly-qualified man as fully qualified and to look for in him a degree of experience which he has had no chance to acquire. The fault, if there be one, is that of industry and not of the profession.

Yours faithfully,

London, EC2.

H. O. H. COULSON.

'Accountancy Economics'

SIR, - Like your correspondent 'A. C. A.' in your issue of October 5th, I was most interested to note the American Institute's intention to investigate the problems of accountancy practice.

The Research Committee of the Birmingham and District Society of Incorporated Accountants was for some time engaged on the preliminary work for a pilot survey of professional accountants' office organization, which was intended to provide experience for a similar survey on a larger scale, and I can assure your correspondent that the question of remuneration was not forgotten.

The project is in abeyance for the time being, pending the implementation of the integration proposals, but will be revived as soon as possible.

Yours faithfully,

E. G. BOLUS,

Chairman of Research Committee,

BIRMINGHAM AND DISTRICT
SOCIETY OF INCORPORATED
ACCOUNTANTS.

Birmingham, 29.

Accounting Ratios

SIR, - The use of accounting ratios has been much more developed in America than it has been over here. If American figures are of any help to 'A. C. A.' (September 7th issue), he should study *Practical Financial Statement Analysis*, by Roy A. Foulke (McGraw-Hill, third edition), or apply to Dun & Bradstreet Inc, of 99 Church Street, New York, 8, N.Y., for a copy of their brochure *Twenty-five years of the 14 Important Ratios*. This was also written by Mr Foulke.

Yours faithfully,

London, NW8.

T. G. ROSE.

Bonus Issues

SIR, - In these days of numerous bonus issues, it would save shareholders much head-scratching, and accountants considerable laborious work, if the companies involved were to indicate on the counterfoils of say the first two dividends paid after such bonus issues, short particulars of the effect on the shareholdings in their companies.

In this way, seeming discrepancies in the number of shares held would be readily understood, without recourse to inquiry.

Yours faithfully,

London, EC2.

PHILIP NAYDLER.

Valuation of Goodwill: Omnibus Company

SIR, - We should appreciate other readers' views on the basis of valuation of the goodwill of a private limited omnibus company.

The business concerned is operating public service vehicles and has the monopoly on one route and, on certain days of the week, has services to outlying villages. They also, of course, operate private trips and tours.

Yours faithfully,

L.

Laundry Costing

SIR, - I have recently been appointed accountant to a group of laundries, and I should like to contact any other accountants who have successfully installed a system of costing in a laundry, independently of the Institute of British Launderers.

Yours faithfully,

DETERGENT.

[We shall be glad to forward any replies to this letter to our correspondent. - Editor.]

Lambeth Palace Library Appeal

SIR, - The trustees of Lambeth Palace Library would be very grateful if it were possible, through the medium of your columns, to bring to the notice of your members the appeal for the Library Fund.

The Library was founded in 1610 by Archbishop Bancroft under the patronage of King James I. Since then it has grown by bequests and purchase, until today, we are advised, it ranks second only to the British Museum in national importance, of the libraries in London.

The Library is an important cultural heritage and a treasure-house for all scholars and students to whom it has always been open without charge. We should indeed be failing in our trust if we did not do all in our power to ensure its continuance and development.

The trustees have no regular funds and to ensure the enrichment and development of the Library and its maintenance, freely open to all, as it has been since its foundation, a public appeal for an endowment fund is being made.

Donations or subscriptions to the Lambeth Palace Library Appeal Fund may be sent to the Library Appeal Office, Morton's Tower, Lambeth Palace, London, SE1, and will be most gratefully received.

I am, Sir, yours faithfully,

LUKE,

London, SE1. Chairman of Appeal Committee.

Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Miesagaes v. C.I.R.

In the Court of Appeal – July 22nd, 1957
(Before THE MASTER OF THE ROLLS (Lord EVERSHED),
Lord Justice MORRIS and Lord Justice PEARCE)

Income tax – Residence – Ordinary residence – Exempt Government securities – Income Tax Act, 1918, Section 46.

The appellant came to the United Kingdom with his father on August 26th, 1939, at the age of 6, and they both remained here until March 1946. During that period the appellant and his father were treated as not ordinarily resident in the United Kingdom for tax purposes. In March 1946 the appellant's father went to live in Switzerland for reasons connected with his health, and with the intention of establishing his permanent residence there. The appellant was at that time in a school in England, and he remained at school in this country till July 1951.

The appellant contended that he was not assessable in respect of interest arising on certain British Government securities in the years 1947–48 to 1951–52, in that he was not ordinarily resident in the United Kingdom for those years, and that he was therefore exempt under Section 46 of the Income Tax Act, 1918. The Special Commissioners decided that the appellant was ordinarily resident here during those years.

Held (affirming the judgment of Mr Justice Wynn-Parry), that the Special Commissioners' decision was correct.

Saunders v. C.I.R.

In the House of Lords – July 25th, 1957
(Before Viscount SIMONDS, Lord REID, Lord COHEN
and Lord SOMERVELL OF HARROW)

Income tax – Settlement – Power to release sums from settlement – Whether power to determine provision of settlement – Finance Act, 1936, Section 38.

Under a settlement made in 1951, the trustees were given power to apply any part of the capital of the trust funds for the benefit of one or more of a specified class, including the settlor's wife,

'freed and released from the trusts concerning the same provided always that during the life of the settlor any exercise by the trustees with such consent as aforesaid of the power in this clause contained shall be subject to the limitation that the capital of the trust funds remaining subject to the trusts of this settlement immediately after such exercise shall be of a value of not less than £100'.

The settlor was assessed to surtax for 1951–52 on the income from the property comprised in the settlement. On appeal the Special Commissioners

held that the trustees' power was a power to determine a 'provision' of the settlement, and for this reason, and also because the settlor's wife might, upon the exercise of the power, become entitled to part of the property, that Section 38 (2), Finance Act, 1938, applied and that the assessment should stand.

Held (affirming the decision of the Court of Appeal) (Lord Keith of Avonholm and Lord Somervell of Harrow dissenting), that whether the word 'provision' referred to a part of the written document, or referred to benefits provided by the settlement, the case was not within Section 38 (2).

C.I.R. v. Whitworth Park Coal Co Ltd

C.I.R. v. Brancepeth Coal Co Ltd

C.I.R. v. Ramshaw Coal Co Ltd

In the High Court of Justice (Chancery Division) –
July 31st, 1957

(Before Mr Justice HARMAN)

Surtax – Undistributed income of company – Colliery company – Nationalization – Interim income – Revenue payments – Income Tax Act, 1918, Schedule D, Charging Rule 1 (b), Case III, Rule 1 (a), Case VI, General Rule 21 – Finance Act, 1922, Section 21, Schedule 1, paragraph 6 – Finance Act, 1939, Section 14 – Coal Industry Nationalization Act, 1946, Sections 5, 19, 22 – Coal Industry (No. 2) Act, 1949, Section 1.

In each of these cases the company carried on the trade of coal mining, and on January 1st, 1947, its trade vested in the National Coal Board under Section 1 of the Coal Industry Nationalization Act, 1946. The company received sums of money in the form of revenue payments under Section 22 (3) of the Act, and Section 1 of the Coal Industry (No. 2) Act, 1949.

Directions were made under Section 21 of the Finance Act, 1922, and Section 14 of the Finance Act, 1939, for the years 1948–49, 1949–50 and 1950–51. The dispute in the case was whether the payments (which it was conceded were of an income nature) were annual payments within Case III of Schedule D and therefore to be included in the computation of the company's actual income for the years of receipt, or whether they were *sui generis* and within Case VI of Schedule D and should be spread over the years or periods in respect of which they were paid. The Special Commissioners decided in favour of the latter view.

Held, that the revenue payments were 'other annual payments' within Case III of Schedule D, and should be included in the computation of the company's actual income for the respective years in which they were received.

For Students

ACCOUNTANCY

Cash Discount

Cash discount is the reduction in price which is afforded a purchaser for prompt payment of his account for purchases. Although the most common rate of cash discount is probably '2½ per cent monthly' – i.e. 2½ per cent for settlement of the monthly account within a week or two after the end of the month – there are no uniform scales of cash discount in commerce. Some firms allow no cash discount whatsoever, and threaten to charge interest on overdue accounts; other firms employ a graduated scale of cash discounts to tempt their customers to settle promptly, even starting as high as 10 per cent for cash-with-order in their bidding.

In the final accounts, cash discount should be regarded as being a financial expense or gain (debit or credit, as the case may be), and should therefore be shown in the profit and loss account, not the trading account. For this reason, when a capital asset is acquired, the payment for which entitles the buyer to cash discount, the normal treatment is to capitalize the invoice price and to credit any cash discount received to the discount account, thence to profit and loss account.

Although many profit and loss accounts show only a single entry for discount, being the net excess of discount allowed over discount received or vice versa, it is preferable to show two items, one on each side of the profit and loss account. From a management point of view, the two items are not necessarily related, since action taken to increase one may not affect the other – e.g. a bank overdraft raised to enable prompt settlement of creditors' accounts might well increase the amount of cash discount received, but it could hardly be expected to increase the speed at which the debtors settled their accounts. To enable management to see the full effect of any such policies, therefore, the two items should be shown separately.

A provision for discount receivable or allowable frequently falls to be made at the end of the financial year. Some accountants raise objections to the former, on the grounds that it is anticipating income, and that the discount is receivable only when the creditor's account has been paid, which it has obviously not been at the date of the balance sheet. Although there may be some substance in this argument, the custom is widespread of taking credit for the cash discount which will be received after the balance-sheet date in respect of creditors' accounts shown in the balance sheet. A provision is accordingly made of, say, 2½ per cent on the accounts eligible for such discount, which provision is deducted from the creditors in the balance sheet.

A provision for discount allowable is not, of course, subject to the objections raised above, and this is usually made on all debtor balances which are eligible for cash discount after the date of the balance sheet, even though when the balance sheet is compiled it is known that some debtors will not, or have not, availed themselves of this discount. The provision for discount allowable should, of course, be computed only on the amount of debit balances which are 'fresh', less

any provision for bad or doubtful debts which has been made. For example, if the provision for bad or doubtful debts is for 100 per cent of some debts, the vendor clearly cannot lose more than 100 per cent of the debt, and no further provision for 2½ per cent discount is necessary.

Description of Share Capital

The expression 'share capital' is rather a general term, and unless further qualified its precise meaning can only be determined by the context in which it is used. There are therefore several descriptive terms applied to the share capital of a company, and they should be clearly understood by students.

Authorized, nominal or registered capital are synonymous terms describing the share capital upon which stamp duty has been paid on the incorporation of a company, or at a later date if the amount of this capital has subsequently been increased. It is *authorized* for issue by the memorandum of association, and the *nominal* value thereof is stated in that document. It is *registered* by the Registrar of Companies when the statement of nominal capital is filed on incorporation of the company.

Issued capital is that part of the authorized capital which is *issued* by the company to its shareholders, whether it be fully or partly paid, and irrespective of the consideration for which the shares have been issued. Usually the term is applied to that part of the capital which has actually been allotted. However, a minority school of thought sometimes suggests that the term should be applied to that capital which is issued for subscription by the public, i.e. the total amount on offer. This sum will obviously be more than the amount actually taken up if there is an under-subscription.

Subscribed capital is usually interpreted as being that part of the issued capital which has been *subscribed* for by the shareholders for cash. It is fully or partly paid. A wider meaning is often given upon the expression to include those shares which have been issued as bonus shares, or for a consideration other than cash (e.g. to vendor in payment for assets acquired by the company).

Called-up capital is that part of the subscribed capital on which the directors have decided to *call up* moneys. The subscribed capital might therefore be one million shares of 20s each, but the called-up capital might be only one million shares to the extent of 5s each.

Uncalled capital is the difference between subscribed capital and called-up capital.

Paid-up capital is the amount of the called-up capital which has actually been paid by the shareholders.

Reserve capital denotes that some part of the issued capital which has not been called up has, by special resolution of the company, been declared incapable of being called up until and unless the company is placed in liquidation. In so far as the possible claims of creditors might exceed the available assets on a liquidation, this sum is therefore capital which is held in *reserve*.

ENGLISH LAW

Unclaimed Dividends

When a company pays a dividend, it is not uncommon for one or more dividend warrants not to be presented for payment within a reasonable period. Normally the paying bank will observe the usual six-months' convention, and any warrants being presented after this period will be referred back to the company on the instructions of the bank for re-dating as evidence of validity.

In cases where there remain unclaimed dividends from earlier years, however, the problem arises as to where the company stands in law. In practice, the amount of the unclaimed dividends will usually be transferred back to the main bank account from the dividend bank account after a few months' lapse, though sometimes it is transferred for a period to a general unclaimed dividends bank account. This is purely a matter of commercial expediency, however, since the liability of the company to pay on a dividend warrant obviously cannot be affected by the banking arrangements of that company.

In law, a resolution of the company in general meeting to pay a dividend constitutes a specialty contract, and accordingly the company is liable to the individual shareholders for a period of twelve years thereafter (Limitation Act, 1939). During this period, the dividends not claimed must be shown as a liability in the company's balance sheet.

After this period, the directors may by resolution declare these dividends forfeited, and the amounts in question will then be credited back to profit and loss account.

Consideration must be given, however, to the possibility of there having been an acknowledgment of the liability during the period of twelve years. Under earlier legislation (Civil Procedure Act, 1833) it was not necessary that such an acknowledgment be made to the creditor: it was sufficient that it had been made by the debtor, and a copy of the company's balance sheet, when filed with the Registrar of Companies, has been held to be a sufficient acknowledgment within the older statutes. Today, under the Limitation Act, 1939, the acknowledgment must be addressed to the creditor, and the earlier decisions are therefore no longer relevant.

As a company is obliged to send a copy of its annual accounts to every shareholder, however, an annual acknowledgment of the unclaimed dividends may well be made unwittingly, even though the individual shareholder may be entitled to no more than a small and unspecified amount of the unclaimed dividends shown in the balance sheet each year. The effect of making such an acknowledgment, of course, is to renew the starting date from which the period of twelve years is calculated.

It would seem, therefore, that as it is quite within the bounds of possibility for a shareholder to receive copies of the annual accounts, but to fail to receive, or mislay, a dividend warrant, unclaimed dividends may only be written off as liabilities when —

- (1) a period of twelve years has lapsed since the declaration of the dividend, or the last acknowledgment; and
- (2) within that period, the directors are confident that no acknowledgment has been made unwittingly (in other words, the address of the shareholder concerned has not been traced by annual accounts etc., or he has

sold his shares at least twelve years earlier); and

- (3) the directors resolve to write off the unclaimed dividends, and there is no prohibition to this course of action in the company's articles.

In passing, it may be noted that many large companies do not endeavour to take advantage of the Limitation Act, 1939, in this matter and, as an act of grace, are willing to pay out dividends which are claimed even after a lapse of, say, twenty years.

H.M.S.O. PUBLICATIONS

Monopolies and Restrictive Practices
Annual Report

Each year the Board of Trade is required to lay before Parliament a report on the operations of the Monopolies and Restrictive Practices Acts. The last such report was that for the year ended December 31st, 1956¹.

The report deals with the activities of the Monopolies and Restrictive Practices Commission, which in 1956 considered *inter alia* the supply of linoleum, certain rubber footwear, certain industrial and medical gases, and electrical and allied machinery and plant. The report reviews briefly the findings of the Commission in each case. (Full reports have been published on these matters during the year.) Many of the restrictive practices which have been considered have been of quite novel terms, and in one case the Commission found that a company had been concealing its ownership of three companies, which continued to trade ostensibly in competition with that company, one of which was used as a 'fighting company'.

Although work has been carried on in these fields for eight years now, the matter is obviously still in its infancy, and the Restrictive Trade Practices Act, 1956, has provided only for the registration and judicial investigation of certain restrictive trading agreements, and the prohibition of collective enforcement of resale price conditions. The former has been achieved by the establishment of a Registrar of Restrictive Trading Agreements whose duty it is to maintain a register of such agreements; the Restrictive Practices Court has also been established, in which proceedings will be instituted in respect of such agreements.

The future work of the Commission is likely to fall into three main categories, for the Board of Trade may ask the Commission to make a report on the facts in any of the following cases:

- (1) Where one concern, or group of related concerns, is responsible for at least one-third of the supply, processing or production of one class of goods;
- (2) where two or more concerns are together responsible for at least one-third of the supply or processing of goods and there is no registrable agreement;
- (3) where there are agreements or arrangements which restrict the export or supply of goods to any particular market for United Kingdom goods, and those arrangements are not subject to registration but the goods in question amount to at least one-third of that particular class produced in the United Kingdom.

The particular industries in which the Commission is now engaged in investigating facts are those for the supply of cigarettes and tobacco, machinery for the manufacture or packaging of cigarettes and tobacco, and of certain electrical equipment for motor vehicles.

¹ House of Commons Paper 97 (1956-57 Session). H.M.S.O., price 1s 4d net.

SEVENTH NATIONAL TAXATION CONFERENCE

SUCCESSFUL EVENT IN TORQUAY

The seventh national taxation conference organized by our contemporary *Taxation* was held from Friday of last week until last Monday, in Torquay. The conference, which coincided with the thirtieth anniversary of the founding of *Taxation*, was a notable success, as indeed have been its predecessors since the conference first started in 1951. Rather than run the risk of sacrificing the unique friendly atmosphere which has characterized these occasions in previous years, numbers were restricted to about one thousand with delegates attending from such distant places as Khartoum, Toronto and Sierra Leone.

As in previous years, the conference was under the chairmanship of Mr Ronald Staples, founder and editor-in-chief of *Taxation*, and once again the papers on various aspects of taxation law and practice presented at the business sessions in the Pavilion and the Assembly Hall were of the utmost value and interest to practitioners. Summaries of the papers are given in the report of the conference which follows.

CHAIRMAN'S INAUGURAL ADDRESS

In the course of his inaugural address at the opening session of the conference on the Friday afternoon, Mr Ronald Staples said:

In 1951 when we held our first conference at Eastbourne, it immediately became apparent that an annual exchange of experience and opinion on this ever-changing subject was welcomed by the professions. In the last few years it has been necessary for us to restrict the number of registrations to one thousand in order that we may not risk losing that intimate personal atmosphere which has gone so far in making our conference a success.

The responsibility of those professional people whose duty it is to advise the public on this intricate subject of taxation, grows with every change in the law and practice. It is idle to blame Parliament or the

draftsmen for the complexities of our income tax code, for these are to a large extent the result of the increasing complexity of our commercial, industrial and financial life.

Looking back over the last thirty years, we see vast changes in our taxation law and practice, indeed the rate of income tax itself has fluctuated between four shillings and ten shillings and the rate of surtax has climbed from a maximum of 6s in the £ to 10s 6d in the £. The yield of income tax and surtax when we started *Taxation* was £359 million while last year these taxes brought in £2,360 million.

To a large extent these yields have shown thermometer readings of the well-being of this country. In the early days of my editorship of *Taxation* I ventured to hope for some simplification in our taxing system, but all such dreams faded away with the war clouds which gathered in the late thirties and as the years have passed the understanding of income tax law and practice has become more and more out of the reach of those who do not spend all or most of their time keeping in touch with the change.

The large number of tax officials present today is an indication of the great change which has taken place over the years in the co-operation between the Revenue side and the representative of the taxpayer. Thirty years ago the very idea of a meeting of this kind where accountants gathered to listen to official experts and Inspectors of Taxes welcome the opportunity of hearing the views of the experts from the other side of the fence, would have been ridiculed by both parties. I am proud to believe that *Taxation* has done much to bring about the feeling of mutual respect and understanding which has grown up in recent years.

Bank Rate and Income Tax

What then of the future? Unless something unforeseen occurs to upset my calculations, I believe that the

'IF' - An up-to-date version - with apologies to Rudyard Kipling.

The following lines were recited by the Mayor of Torquay in the course of an entertaining speech of welcome to members of the Seventh National Taxation Conference and their ladies.

If you can pay your tax when all about you
Are dodging it except for Schedule A,
If standard rate or surtax don't disturb you
And you are anxious only just to pay.
If you can pay and not be tired of paying
Or fill up forms and yet don't deal in lies,
Or claiming rebate don't default by saying
You've sixteen kids or even thirteen wives.

If you can scheme yet not assay deception
While making tax avoidance your sole aim,
If you can cope with income tax collection
By putting first demands straight down the drain,
If you can bear to see forms you've completed
Checked by clerks who suspect of you the worst,
And see allowances you've claimed deleted
For ex's - say for 'shorts' to quench your thirst.

If you return a full list of your winnings
From horses, dogs or even pitch-and-toss,
Or, if you've made no profit from your sinnings,
You never make a claim about your loss.
If you can quote from Staples on Taxation
To show Inspectors where they've gone astray
And, though you're right, say without vexation
That you'll not disagree - you'd rather pay.

If you are told a week-end - say in Paris
Is not accepted as a trade expense,
Though you went with your client, Mr Harris,
To impress him with your skill and commonsense.
If you attend this Conference and each minute
Your full attention give and think it fun,
Yours is the Earth - tax free - and all that's in it,
And, what is more, you're a blinking miracle, my son.

measure of alleviation which the taxpayer received in the last Budget will be continued next April and that industry and the taxpayer generally can look forward with hope for further relief. The Governor of the Bank of England last week warned us that unless we can all accustom ourselves to adjustments of Bank rate to the requirements of the moment without heralding minor reductions from crisis levels as a signal for new excesses of spending, the Bank rate will gradually lose its utility. If we can accept with caution the gradual reductions as we meet them then I believe that by Budget-day the Bank rate will have fallen in easy stages to its recent level of 5 per cent. If both these forecasts prove to be true then we may indeed look forward to a rosy start for the next financial year.

Profits Tax Anomaly

Our taxing system has always been riddled with anomalies. Today one of the most glaring of these relates to the profits tax. This tax has been charged on a two-tier system since 1947 and since that time companies have built up very large amounts of non-distribution relief which though not a liability due and payable is nevertheless a continuous source of anxiety. If companies are to have relief for retaining profits within the business, they should be able to use those resources for the benefit of the business and because of high taxation and increased prices they have needed all they could lay their hands on to purchase additional plant and modernize existing plant. If they should now have a bad year but continue distributions at the same level as when results were good, a distribution charge can be made in order to absorb some of the old non-distribution relief.

After a period of ten years it seems unreasonable that this potential liability should still remain. The Royal Commission on the taxation of profits and income recommended that we should return to the single rate of profits tax which would do much to simplify the charge to this tax and would do away with some of the avoidance provisions that are at present considered necessary.

With effect for accounting periods falling after August 1st, 1957, the statement made by Sir Stafford Cripps on July 22nd, 1948, concerning the practice of the Special Commissioners in relation to the application of Section 245, Income Tax Act, 1952, has been terminated. That Section is concerned with preventing avoidance of surtax by the withholding from distribution the profit that it would be reasonable for a company to distribute. The profits tax legislation of which I have just spoken provides at least a temporary benefit if profits are retained and are not distributed. Clearly these two provisions run contrary to one another and I hope the Chancellor of the Exchequer will, in his next Budget, deal with this matter by removing the two-tier profits tax charge in favour of a charge at a single rate. Such a move would be warmly welcomed by industry as a whole. (Applause.)

Presentation to Mr Ronald Staples

After the conference was accorded a civic welcome by the Mayor of Torquay, Councillor A. L. Goodrich, J.P., Mr Percy F. Hughes, the recently appointed Editor of *Taxation*, reminded those present that Mr Ronald Staples had been Founder-Editor of *Taxation* for thirty years and said that it was appropriate that the

occasion should be marked by the presentation of a suitable token. He then presented Mr Staples with an inscribed silver ash-tray and expressed, amid much applause, appreciation of all the services Mr Staples had rendered to the accountancy profession.

At the conclusion of the opening proceedings, the presentation of the Ronald Staples Gold Medal for outstanding merit in the 1957 *Taxation* Diploma examination was made to Mr K. W. Walker, B.A., A.C.A.

Taxation Planning in Commercial Undertakings

The first paper of the conference was presented by Mr A. E. Aylmer, B.Sc., A.R.C.S., deputy taxation manager of Unilever Ltd, on "Taxation planning in commercial undertakings". The chairman of this session was Mr Bertram Nelson, C.B.E., F.S.A.A.

Mr Aylmer said the object of most of the planning which went on in the office of the tax adviser of a business was to see that profits were assessed to tax once only, and that all expenditure and losses were allowed as deductions from taxable income. The imperfections of the tax system sometimes caused the same profit to be assessed twice, or prevented expenditure from being deducted, and the tax adviser's job was to guard against this. The big problem was to make commercial managements tax conscious so that tax advice would be taken before a new project was embarked upon.

Double taxation of the same profit cropped up mostly where the new business provisions were applied in Case I or Case V, and it was most important to see that that profit was as low as possible. If a new business was bought, it was better to buy the owning company's shares than the business so as to avoid the new business provisions altogether. As regards dividends from new overseas subsidiaries, mitigation of tax could be achieved by avoiding any dividend in the second or third year of assessment. Of course when shares were bought, instead of the business itself, the plant had to be brought in for depreciation at its income tax written-down value, which might be less than what the plant taken over had really cost.

Relief for charitable donations could be obtained by entering into a seven-year covenant either with the charity in mind or with a charity whose objects were to make donations to other charities, including charities abroad. Mr Aylmer went on from this point to talk about ethics. He considered that, in spite of judicial approval, everything within the letter of the law was not necessarily permissible as a matter of ethics. He would advise against the purchase of a company with accumulated losses solely with the idea of using up those losses, and equally he would have withheld his blessing from the transfer of businesses from one company to another in the same group to obtain cessation adjustments—a practice which was stopped in 1954. The formation of Bermudian subsidiaries to operate ships could perhaps be defended as doing no more than mitigate the imperfections of a tax system which did not allow wear and tear on the replacement cost.

Reception

In the evening, members of the conference and their ladies attended a reception and cocktail party given by the Editor-in-Chief of *Taxation* in the Town Hall.

Mock Appeal Meeting

On Saturday morning a mock appeal meeting was held. Those taking part were:

Commissioners: Sir Harold Howitt, G.B.E., D.S.O., M.C.,

D.C.L., J.P., F.C.A. (Chairman); Mr M. F. Coop, B.A.; Mr G. H. Smith.

Clerk to the Commissioners: Captain J. E. Eastley.

Appellant: Mr K. R. Tingley, A.A.C.C.A.

Council for the Appellant: Miss L. I. M. Thomas, LL.B.

Inspector: Mr H. F. Hodgkinson.

Accountants: Mr R. J. Pickerill, A.C.A.; Mr J. Kennedy Melling, A.C.A.

While the mock appeal was in progress the ladies were entertained at a special mannequin parade in *The Marine Spa Ballroom*.

Recent Legislation

On Saturday afternoon, two papers were presented; the first, with the Rt. Hon. Lord Latham, K.ST.J., J.P., F.A.C.C.A., F.C.I.S., in the chair, was given by Mr John E. Talbot, F.C.A., on 'Recent Legislation'.

Mr Talbot began with an interesting study of the vagaries of the personal allowances, which he concluded with a suggestion that the fixed allowances should be reviewed in view of the fall in the value of money. He then dealt with the revolutionary changes in the Schedule E charging rules introduced in 1956. Turning to estate duty, he said that Section 32 of the Finance Act, 1956, had removed the hardship caused by the decision in *Re Lambton* (31 A.T.C. 300). He also dealt with other changes wrought by that Act and then went on to deal with the estate duty provisions of the 1957 Act.

Dealing with the recent relief for retirement provisions, Mr Talbot said we might find that more and more trust-administered funds would take over their own investing instead of contracting out to insurance companies on terms which did not offer very striking reductions on premiums paid by the public generally. A trustee-administered fund investing all its accumulating contributions in sound-growth equity stocks (including some dollar stocks) would approach most closely to the ideal of full protection against future inflation.

Mr Talbot closed his lecture with some very useful practical advice on the new overseas trade corporation provisions.

Double Taxation

Double taxation was the theme of an interesting and carefully prepared paper by Mr Percy F. Hughes, A.S.A.A., F.C.I.S., who gave the second address on Saturday afternoon, with Sir Bruce Wycherley, M.C., F.C.I.S., in the chair.

He began with a review of the history of double tax relief, and passed on to a consideration of the difficult subject of residence, both in the case of individuals and in the case of companies, and the well-recognized conception of a 'permanent establishment' as giving rise to tax liability on the profits made there.

Mr Hughes explained the problem of companies who gained relief from United Kingdom tax only if they paid an equivalent amount in the foreign territory. If that territory gave a special relief or exemption, the benefit was lost to such a company. However, the new provisions for complete relief to overseas trade corporations, independently of whether or not they bore foreign tax, would go a long way to meet this complaint. Another recent provision which removed a hardship was Section 12 of the Finance Act, 1956, which broadly speaking defers the taxing of overseas profits until those profits are capable of being remitted to this country.

Mr Hughes dealt with the dichotomy between a company and its shareholders and reviewed the complexities which arose where dividends were paid out of doubly taxed profits. The dichotomy was abandoned where the company had received double tax relief; the shareholders could not claim relief on more tax than the reduced rate effectively paid by the company, notwithstanding that the full rate

of 8s 6d was deducted from his dividend. The speaker also dealt with the case of individuals receiving doubly taxed income direct, and with the special arrangement applicable to income taxed by the Republic of Ireland.

Civic Reception and Dance

The highlight of the social programme of the conference took place on Saturday evening when members and their ladies attended a civic reception and dance given in the Town Hall by the Mayor and Mayoress of Torquay, Councillor and Mrs A. C. Goodrich.

Church Service

Members of the conference with their ladies attended divine service at Holy Trinity Church, Torquay, conducted by The Reverend John A. Sime, M.B.E., B.A., HON.C.F., on Sunday morning.

Golf Competition

A special eighteen-hole medal round golf competition for the *Taxation Challenge Cup* was also held on Sunday over the Torquay Golf Club course. The winner was Mr John H. Savage, A.S.A.A., of Birmingham.

Thirty Years at the Tax Bar

The first paper on Monday morning, with Mr A. S. H. Dicker, M.B.E., F.C.A., in the chair, was given by Mr L. C. Graham-Dixon, Q.C., on 'Thirty years at the tax bar'.

The speaker dealt with the many changes which had taken place in the tax legislation over those thirty years; the bringing of farmers into Schedule D, the institution of the system of balancing charges and allowances, the valuation of stock where a business was discontinued, and the anti-avoidance provisions where there are sales between parties under common control. At one time, when surtax rates were much lower than they are now, avoidance was so easy as almost to justify the remark that it was a voluntary tax. This had all been changed by anti-avoidance legislation, particularly Section 418 of the Income Tax Act, 1952, in relation to transfers of assets abroad.

Of course there were anti-avoidance provisions for other taxes besides income tax. For instance, excess profits tax had carried a number of such provisions which had given rise to a great many appeals. Directions under Section 35 of the Finance Act, 1941, had been made in a somewhat indiscriminating fashion. Of about seventy appeals in which he had been engaged, some sixty-seven directions had been discharged. Similar directions could now be made for profits tax. Mr Graham-Dixon criticized the wording of the 'Chancellor's umbrella' in relation to surtax directions, now discontinued, and also the inconsistency between profits tax on distributions and surtax on undistributed profits.

During the morning, while the business session was taking place, the ladies enjoyed a coach tour of some of the beauty spots around Torquay.

Computation of Profits

At the final session held later on the Monday morning, Mr Ronald Staples took the chair and the speaker was Mr R. B. Pollott, M.A., F.C.A., whose subject was the 'Computation of profits'.

The speaker dealt in particular with two topics, the valuation of stock and the treatment of bad debts.

The cost or market value formula had received judicial blessing as long ago as 1926 but the Inland Revenue had not conceded that this gave the taxpayer the right to 'pick

and choose' for different items of stock; this right had been established in 1949 when a taxpayer successfully attacked the Revenue interpretation. The ascertainment of market value gave rise to many difficulties and uncertainties; there were of course two markets, the one in which the trader bought and the one in which he sold. The Revenue took the view that it was the market in which the trader sold which had to be taken into account; market value was realizable value, not replacement cost. Mr Pollott quoted

from the recommendation of the Institute from which it appeared that valuation at replacement cost was permissible, but in that case he thought the basis ought to be described as 'cost or replacement value'.

Mr Pollott dealt with ascertainment of cost, FIFO, LIFO, and inter-departmental profits, as well as Section 143 of the Income Tax Act, 1952. He concluded with a close and careful examination of the income tax law in relation to bad and doubtful debts.

INTERNATIONAL FISCAL ASSOCIATION

Reflections on the Eleventh Annual Congress

The eleventh annual congress of the International Fiscal Association, recently held in Vienna, was well attended by 378 delegates from twenty-three countries. In addition to the business sessions held in the University building, there was an official reception of delegates by the Mayor of Vienna in the Rathaus and a banquet given by the Federal Ministers of Finance and of Commerce and Reconstruction in honour of the delegates at the Auersperg Palace. The delegates from the United Kingdom branch were led by their chairman, Mr Charles W. Aston, A.C.A.

The usual pattern of the congresses, which was again followed this year, is to have two subjects for discussion and a third for study; the study theme becomes one of the subjects for discussion the following year. Subjects were discussed in three well-attended language groups, English, French and German, and afterwards in plenary sessions with simultaneous translation.

Dr Mitchell B. Carroll (United States), President of the International Fiscal Association, presided over the congress. He devoted a major part of his address at the first business session to the provisions of the United Kingdom Finance Act of 1957 relating to overseas trade corporations and the measures adopted by other countries to deal with the same problem.

Protection of the Taxpayer

The study theme for 1956, which became a subject for discussion at this year's congress, was the 'juridical protection of the taxpayer *vis-à-vis* the fisc', on which subject a paper had been prepared by Mr N. D. Ashley. There was strong feeling amongst members of the congress against retrospective legislation except in cases of extreme necessity, and reference was made by way of example to the recent estate duty legislation in Britain which had been modified as a result of unfavourable public opinion.

Discussing this first theme, it was noted that fiscal authorities frequently issue administrative regulations, the effect of which is not always very clear, and the congress felt that such regulations should be binding on the administration itself so long as the regulations are not officially amended or abolished, and stressed the importance of taxpayers being informed about such regulations. There was an interesting discussion on the Swedish practice whereby a special national office of fiscal information is prepared to inform a taxpayer as to the effect of a proposed course of action.

The second subject discussed was 'The position of permanent establishments in national and international

fiscal law'. The British rapporteur was Mr C. D. Hellyar, F.C.A., who, in addition to preparing a comprehensive survey of the British practice, also acted as chairman of the English language discussion group. The Minister of Commerce and Reconstruction, in opening the congress, had referred to the importance of having an agreed definition of 'permanent establishment', a concept which he said was fundamental to the European Common Market.

Tribunals to Resolve Disputes

It was emphasized in the discussions that the principal aim of having an agreed definition in all double taxation treaties is to facilitate the flow of trade, capital and services between nations. Anything that increases the burden of double taxation acts as a deterrent to this free flow. There should also be provision in double taxation treaties for tribunals to resolve disputes on the interpretation of these treaties. Attention was drawn to the work that is going on in O.E.E.C. in an endeavour to find a satisfactory definition and the congress placed on record that special treatment might be necessary for certain activities, such as power lines, railroads, shipping and aviation enterprises.

The study theme for 1957 was 'The taxation of patents, trade-marks, etc.' on which subject an excellent, painstaking report was submitted by Mr M. H. Bresch, the British rapporteur for this session and chairman of the English language discussion group. The subject will be further discussed at the congress next year, with special reference to the international taxation of such classes of income.

The second subject for discussion next year will be 'The onus of proof in fiscal matters', a topic which presents some difficulty in international taxation practice where the fiscal authorities of one country may not be prepared to accept accounts and tax returns prepared in another country. In addition, a report will be made on 'Fiscal aspects of the common market'.

Expansion of the Association

The work of the International Fiscal Association is becoming increasingly recognized outside Europe. A new branch has been formed in Australia and the recent congress was attended by representatives from the U.S.A., Algeria, Israel, Egypt, Pakistan, Japan and South America as well as by delegates from most of the European countries.

Members of the profession in the United Kingdom wishing to join the United Kingdom Branch should address their inquiries to Mr O. Brooks, 122 Leadenhall Street, London, EC3.

REALITY IN FINANCIAL AFFAIRS

Leicestershire and Northamptonshire Society of Chartered Accountants' Annual Dinner

The annual dinner of the Leicestershire and Northamptonshire Society of Chartered Accountants was held at *The Grand Hotel*, Leicester, on Wednesday, October 16th, with Mr R. D. Lea, F.C.A., President of the Society, in the chair.

Mr Lea, together with Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of The Institute of Chartered Accountants in England and Wales, received the company of 180 members and guests, among whom were the Rt. Hon. The Lord Cromwell, D.S.O., M.C., J.P., Lord Lieutenant of Leicester; Alderman F. J. Jackson, Lord Mayor of Leicester; Dr R. R. Williams, Lord Bishop of Leicester; Dr Elfed Thomas, B.Sc., Ph.D., Director of Education, Leicester, and

Messrs S. B. Bardoli, F.I.M.T.A., A.S.A.A. (*City Treasurer of Leicester*); P. Chapman (*Assistant Editor, 'The Accountant'*); R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*); F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); Lieut.-Col. C. E. J. Freer, D.L., J.P. (*President, Leicester Law Society*).

Messrs W. A. Harvey, B.COM., C.A., F.C.W.A., F.C.I.S. (*President, The Institute of Cost and Works Accountants, Leicester and District Branch*); P. D. Irons, B.COM., A.C.A., F.C.W.A. (*President, South Eastern Society of Chartered Accountants*); J. Walter Johnson (*President, Leicester and County Chamber of Commerce*); S. Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); D. A. Lewis, LL.B., B.A.(COMM.) (*President, The Institute of Bankers, Leicester Centre*); A. S. MacIver, M.C., B.A. (*Secretary of the Institute*); H. Musker (*H.M. Principal Inspector of Taxes, Leicester District*).

Messrs W. E. Parker, C.B.E., F.C.A. (*Immediate Past Chairman, London and District Society of Chartered Accountants*); E. W. Parkinson, J.P., L.R.I.B.A., F.I.A.A., S.F.V.I. (*President, Leicestershire and Rutland Society of Architects*); F. W. Payne, F.R.I.C.S. (*President, Leicester Auctioneers' and Estate Agents' Association*); A. Dyas Perkins (*President, Northamptonshire Law Society*); D. Sirkin, F.S.A.A. (*President, Leicestershire and Northamptonshire Society of Incorporated Accountants*); Ralph H. H. Smith, F.C.I.I. (*President, Insurance Institute of Leicester*); D. Steele, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*).

Messrs R. G. V. Tacey, F.C.I.S. (*Chairman, Chartered Institute of Secretaries, Leicester and District Branch*); C. C. Taylor, J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); Mr E. K. Wright M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*).

Value of the Accountant's Services

The toast of the Institute was proposed by the Bishop of Leicester, Dr R. R. Williams, who said that the services rendered by accountants to the Church were always appreciated by the clergy, who were not always the most business-like people. Accountants stood for reality in financial affairs, and that was something that was very important.

It was a good thing for them to be reminded whether or not they could afford the things they would like to have. The Church knew how tremendously valuable their society was. The accountant was performing that kind of service which was helping to keep them in touch with objective reality.

It also enabled them to understand the consequences of their action, to preserve them from undue burdens of taxation which might fall on their shoulders from sheer ignorance, and preserve them from an undue desire to escape their just burdens. All these things were services rendered by accountants. Accountants rendered a double service - to the Crown and to the citizens of the nation.

Responding to the toast, Mr Lawson said that this was the first occasion on which he had replied to the toast of 'The Institute'. He went on to refer to the prospects in the profession - which he stated were better than ever - and then discussed the need to obtain additional recruits of the right calibre from the schools and universities.

District Societies Represented

Proposing the toast of 'The Guests', Mr Lea said that of the fourteen societies in the country, eight were represented at the dinner, which was very gratifying, particularly as some had travelled considerable distances to be present. Referring to the presence of Mr Musker, the Principal Inspector of Taxes, he said it would be hypocritical to say that they always agreed with the Inland Revenue, but they knew that they were dealing with men of the highest integrity, and for the taxpayer that was a great thing. He paid tribute to the excellent arrangements of Mr J. H. Golcher, F.C.A., the hon. dinner secretary.

In a witty response to the toast, Dr Elfed Thomas said that the Institute had a tremendous range of activities which called for maintaining a high professional status. The success of the profession, he said, depended on the good standard of education of new entrants.

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Notes and Notices

PERSONAL

MESSRS DIXON, HOPKINSON & Co, Chartered Accountants, of Birmingham, announce that as from October 18th, 1957, they have changed their address to Lancaster House, 67 Newhall Street, Birmingham, 3. The telephone numbers (Birmingham Central 7711/2/3) remain unchanged.

MESSRS BURSTON, DIMMOCK & Co, Incorporated Accountants, of Bridgwater and Street, Somerset, announce that they have admitted Mr DAVID H. M. LAMBERT, A.C.A., to partnership as from October 1st, 1957.

MESSRS WEST & DRAKE, Chartered Accountants, of Lincoln's Inn Fields, London; Market Place, Reading; High Street, Bracknell, and The Abbey Close, Sherborne, Dorset, announce that they have admitted to partnership in their Sherborne practice Mr BRIAN SIMS, A.C.A., who served under articles with the firm. The name of the firm will remain unchanged.

PROFESSIONAL NOTES

Sir Harold Gillett, M.C., F.C.A., has been appointed an additional director and chairman of Bukit Lintang Rubber Estates Ltd, now a subsidiary of the Bank of Europe.

Mr J. S. Carolin, M.B.E., A.C.A., has been appointed an additional director of Raphael Tuck & Sons Ltd.

Mr Brian Manning, D.L., J.P., F.C.A., has been elected chairman of Canning Town Glass Works Ltd.

Mr H. L. Gibson, A.C.A., who has been secretary of Odhams Press Ltd since 1946 and an executive director since 1953, has been appointed an assistant managing director of the company; he has also been appointed a director of Odhams (Watford) Ltd.

Mr George William Dawson, M.B.E., A.S.A.A., has been appointed to the board of Scott & Turner Ltd.

OBITUARY

ARTHUR E. THOMAS, F.C.A.

It is with regret that we record the death at the age of 75 of Mr Arthur E. Thomas, F.C.A., a partner in the firm of A. Owen John & Co, Chartered Accountants, of Swansea.

Mr Thomas served his articles with the firm of Tribe, Clarke, Cawker & Co, and was admitted an Associate of the Institute in 1904. After serving in the Navy during the First World War, he was for a few years in the accountancy branch at the Admiralty. Returning to Swansea, he became a partner in the firm of A. Owen John & Co and was elected to Fellowship of the Institute in 1937.

During the Second World War, Mr Thomas was for some years President of the South Wales and Monmouthshire Society of Chartered Accountants, and

was one of the founders of the West Wales Chartered Accountants' Students' Society of which he served as President.

Mr Thomas was for a time auditor of several local building societies; he was also a prominent freemason. His son, Mr Henry W. Thomas, F.C.A., is a partner in A. Owen John & Co.

APPOINTMENT OF ASSISTANT OFFICIAL RECEIVERS

The Board of Trade have announced that as from September 30th, 1957, Mr Herbert William Kirkwood has been appointed an assistant official receiver for the bankruptcy district of the County Courts of Cambridge, Peterborough and King's Lynn, the bankruptcy district of the County Courts of Northampton, Bedford and Luton, and also for the bankruptcy district of the County Courts of Ipswich, Bury St Edmunds and Colchester.

They have also announced that as from October 21st, 1957, Mr Herbert Leslie Britton has been appointed assistant official receiver for the bankruptcy district of the County Courts of Sheffield, Barnsley and Chesterfield.

THE INSTITUTE OF ACTUARIES' YEAR-BOOK

The 1957-58 *Year Book of the Institute of Actuaries*, now published, records that at July 31st, 1957, the membership of the Institute totalled 2,138 - an increase of 33 on the previous year's figure. An analysis of the membership shows that at July 31st there were 903 Fellows, 311 Associates and 924 students. Of the 903 Fellows, 404 were with British assurance offices, 26 in Government service, 38 in consulting practice and 29 in industry and commerce; of the remaining 406, 247 were overseas - the majority with Dominion and foreign assurance companies.

In addition to an alphabetical list of members and students, the year-book contains a further five sections covering 236 pages.

CERTIFIED ACCOUNTANTS' LUNCHEON MEETING

The first of the 1957-58 winter series of luncheon meetings of The Association of Certified and Corporate Accountants is to be held on Monday, November 4th, at 12.30 p.m. for 1 p.m., at the Connaught Rooms, Great Queen Street, London, WC2. The guest speaker will be Mr Robin Day, who will talk about his experience in covering the news and introducing prominent people on behalf of Independent Television news. Tickets for the meeting may be obtained from the Secretary of the Association, 22 Bedford Square, London, WC1.

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THE CHARTERED ACCOUNTANTS' GOLFING SOCIETY**A. O. MILES CHALLENGE CUP, 1957**

The winners of the Chartered Accountants' Golfing Society's inter-firm competition for the A. O. Miles Challenge Cup were Fitcher, Head, Smith & Co, of London, who beat Harmood Banner, Lewis & Mounsey, of London, 6 and 5. The matches were played over courses selected by the challenging firms during the 1957 season between April and September.

The results are as follows:

Preliminary Round

Harmood Banner, Lewis & Mounsey beat Gray, Stainforth & Co (4 and 3).

Fitcher, Head, Smith & Co beat Reads, Cocke & Watson (2 and 1)

First Round

Pannell, Crewdson & Hardy beat Mills, Hawes, Harper & Co (4 and 3).

Harmood Banner, Lewis & Mounsey beat Critchley, Ward & Pigott (8 and 6).

Fitcher, Head, Smith & Co beat Herbert Hill & Co (3 and 2).

Barton, Mayhew & Co beat Hays, Akers & Hays (4 and 3).

Semi-Final

Harmood Banner, Lewis & Mounsey beat Pannell, Crewdson & Hardy (4 and 3).

Fitcher, Head, Smith & Co beat Barton, Mayhew & Co (2 and 1).

Final (36 holes)

Fitcher, Head, Smith & Co beat Harmood Banner, Lewis & Mounsey (6 and 5).

In the report in last week's issue of the Society's Autumn meeting, we regret that the score of Mr H. Finden-Crofts (91-16=75) was included under the name of Mr S. A. Letts, whose name was inadvertently repeated.

AMERICAN INSTITUTE AWARDS

The 1957 awards of the American Institute of Certified Public Accountants for distinguished service to the accounting profession will be presented during the Institute's seventieth annual meeting in New Orleans, to be held from October 26th-30th, to Mr William B. Franke, C.P.A., United States Under Secretary of the Navy, to Mr Arthur B. Foye, C.P.A., and posthumously to the late Mr Donald P. Perry, C.P.A.

Mr Franke, a former partner in the New York accounting firm of Messrs Franke, Hannon & Withey, will be honoured for his outstanding service to the Federal Government. Mr Foye, a senior partner of Messrs Haskins & Sells, will receive his award for distinguished contributions to international understanding and the affairs of his community. A Past President of the American Institute of Certified Public Accountants and of the New York State Society of Certified Public Accountants, he has been active in many organizations concerned with overseas economic development.

The posthumous award to Mr Perry for outstanding service in raising the educational standards of accountancy will be accepted by his son, Mr Donald G. Perry, C.P.A. Mr Perry was Vice-President of the American Institute and a partner in Messrs Lybrand, Ross Brothers & Montgomery when he died last April. He had also been a member of the Institute's Council and a Vice-President of the American Accounting Association.

THE ABACUS SOCIETY

At the annual general meeting of The Abacus Society of São Paulo, Brazil, the officers for the year 1957-58 were elected as follows:

President: Mr Murray M. Potter.

Vice-President: Mr Carl K. Atkinson, A.C.A.

Treasurer: Mr C. Glenton, A.A.C.C.A.

Secretary: Mr J. S. Allen, A.C.A., Caixa Postal 6980, São Paulo, Brazil.

Committee members: Mr C. E. G. T. Kirk, A.C.A., Mr G. H. Osborn, A.A.C.C.A.

In its fourth annual report, the Society records a membership of thirty-five, of whom fifteen are members of The Institute of Chartered Accountants in England and Wales and four are members of the Scottish Institute. There are also three members of The Society of Incorporated Accountants and four members of The Association of Certified and Corporate Accountants.

INSTITUTE OF INTERNAL AUDITORS

The London Chapter of the Institute of Internal Auditors is holding a course on internal auditing for members' assistants during October and November. The course will comprise a series of five discussion meetings which will commence at 5.45 p.m. for 6 p.m. Details of the course are as follows:

October 28th: 'Management accounting and the internal auditor', by Mr R. C. Bedford, A.C.A.

November 4th: 'The audit of marketing activities', by Mr G. D. Bunce, A.C.I.S.

November 11th: 'Some aspects of method study in the office, including electronics', by Mr L. A. Hill, A.A.C.C.A.

November 18th: 'The audit of operations', by Mr R. F. Blackmur, A.S.A.A.

November 25th: Brains trust. *Panel:* Mr C. P. Evans, A.S.A.A., A.C.I.S.; Mr R. G. Nicholson, C.A.; Mr R. E. Palmer, F.A.C.C.A.; Mr J. Prince, A.C.A., A.C.I.S.

The Chapter secretary is Mr R. P. Tester, C.A., Unilever Ltd, Unilever House, Blackfriars, London, EC4.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m., at the Institute: Lecture on 'The preparation and conduct of a High Court case', by Mr R. C. S. Beecroft. Chairman: Mr Douglas A. Clarke, LL.B., F.C.A. (member of the Council of the Institute and Vice-President of the Students' Society).

Tuesday, 6.0 p.m.: Demonstration of Burroughs accounting machines (limited number).

7.30 p.m., at Southend: Lecture on 'Your money and/or your life', by Mr J. Kennedy Melling, A.C.A., A.T.I.I., F.R.ECON.S.

Wednesday, 5.30 p.m., at the Institute: Practice debate on the motion, 'This house deplores the standard of our popular Press'.

Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'The conduct of a typical case in the Courts', by Mr Patrick W. Medd (Barrister-at-Law).

5.30 p.m.: Demonstration of Underwood accounting machines (limited number).

Friday: Visit to the Royal Mint (limited number).

5.15 p.m., at the Institute: Introductory course lectures on (1) 'Records leading to items in final accounts', by Mr F. R. Porter, F.C.A., A.C.W.A., and (2) 'Partnership law', by Mr Patrick W. Medd (Barrister-at-Law).

Students are reminded that the Library and Study Room at Spencer House, South Place, EC2, are open on Mondays to Fridays from 9.30 a.m. to 5.30 p.m. The Study Room is available in the evening by prior arrangement.

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EUROPEAN TAX SURVEY

COMPARATIVE study of the tax systems of different countries has always been much neglected hitherto, the difficulties being very considerable. Only an expert could hope to master even the tax system of his own country, so complex have these systems become. Moreover, changes are many and varied, so that much of the information which is collected may be out of date before it reaches the printed page. Despite these difficulties some pioneer work has already been done, notably the excellent compilation, under the direction of the Inland Revenue, of *Income Taxes outside the Commonwealth*, not to mention the much older work, from the same source, on income taxes inside the Commonwealth.

In this situation the Federation of British Industries is greatly to be congratulated on its study, published this week, of taxation in the European free trade area.¹ The Federation expresses its indebtedness to the industrial federations and embassies of the countries covered, remarking that without the co-operation thus secured the report could not have been prepared. The fact of such co-operation adds very greatly to the authority of the report, while nobody who reads it can have any doubt about its up-to-dateness.

The background to the preparation of the report is the proposal to form a common market in Europe and an associated free trade area. As the introduction to the report says, any assessment of the changes to be brought about by these innovations demands a close understanding of the factors governing the competitiveness of industry in the different countries involved. Among these factors taxation is undoubtedly of importance. However, no attempt has been made to form any quantitative assessment of the comparative weight of taxation borne by similar firms and industries within each country. The effects of taxation on costs, on investment decisions, on the whole level and patterns of industrial activity can be properly viewed in perspective only against the complex of other factors, historical, geographical, legal, social and economic, which form the background to that activity and whose formative influence on it may vary greatly from country to country. We might add too, that another important factor, though difficult to assess, is the extent of the efficiency with which different taxes are administered in different countries. There can be taxes which sound very onerous on paper but which, owing to extensive facilities for avoidance,

¹ *Taxation in the Proposed European Free Trade Area*, F.B.I., 21 Tothill Street, London, SW1. 20s.

are not nearly so burdensome in fact. The sanctions behind some taxes are so weak as to deprive the taxes of any appreciable effect. Nevertheless, the report rightly points out that there are lessons to be drawn from the structure of the taxation system adopted in various countries. The structure is a significant factor in the determination of the weight and it also gives some guidance as to the extent to which taxation may influence the conduct of business and the degree to which this is a conscious attempt by Governments to steer industrial and commercial activity in one direction or another by fiscal policy.

Here then are brief accounts of the taxation structures of Austria, Belgium, Denmark, Finland, France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Sweden and Switzerland. Luxembourg has been excluded because a radical alteration in that country's tax system is anticipated in the near future. To facilitate comparison the report concludes with a brief account, covering only twelve pages, of the United Kingdom tax structure. The accounts themselves are preceded by a twenty-odd page commentary in which some of the differences and resemblances are highlighted. The report as a whole should be of particular benefit to companies which compete with firms in any of the countries concerned, particularly if there is a possibility of setting up a branch abroad.

One of the most significant differences between the United Kingdom and the Continent is the prevalence in the latter of taxes levied on employers as such, and computed by reference either to the wages bill or to the numbers of employed. In France, for instance, salaries and pensions are subject to a payroll tax, borne by the payer, the emoluments being exempt from ordinary income tax (but not from surtax) in the hands of the recipients. The payroll tax represents a supplement of 31 per cent, in France, to wage and salary costs; in Italy a similar tax is said to add 50 per cent to such costs. In the United Kingdom, of course, the employer pays tax on his profits, so that his contribution to social services is a charge on such profits, rather than part of his direct costs, although national insurance contributions constitute in effect a small payroll tax. The report observes that such high payroll taxes as are borne on the Continent must react on the level of wages, so that the combined

cost of wages and of contributions to social services may not be very different from the wage costs which would arise given no social service contributions and a free market in labour.

Another fact of considerable significance, particularly in view of the controversy about the present rating system in the United Kingdom, is the extent to which income, as agreed for national taxation purposes, is used on the Continent as a basis for purely local taxation. This phenomenon occurs in Italy, Denmark, Sweden and Finland. Even more arresting is the fact that in Switzerland income tax is levied not only by the Federal Government but also by the cantons and even by communes. So much for the official view in the United Kingdom that rating is the only feasible way of raising revenue for local government.

No survey such as the present could be made without the taxation of capital gains being introduced as a topic. On the Continent, as in the United States of America, the concept of income for taxation purposes is much wider than it is in the United Kingdom. Unlike the system in the United States, however, what would be regarded as capital gains are nevertheless taxed, in the main, at the same rates as ordinary income. In Belgium an element of credit is given for changes in the value of money since the acquisition of the asset; while in Finland and Sweden the rate of tax varies inversely with the period during which the capital asset has been held. France and Denmark exempt capital gains which are ploughed back. One can but feel that the last word on capital gains taxes has not yet been said here.

In the valuation of stocks there is, as might be expected, substantial uniformity of treatment, for this is more a matter of the principles of accounting. The report states that in the United Kingdom, with very isolated exceptions, stocks must be valued by the first-in-first-out method on the basis of cost or market value, whichever is the lower. The exceptions are perhaps not so isolated as the report suggests. Where complete stock records are kept, the basis is neither first-in-first-out, nor last-in-first-out, for these rough and ready assumptions are then unnecessary. In nearly every country on the Continent some relief is granted from the rigours of first-in-first-out, but it is clear from the report that little more latitude in valuation bases is allowed there than here.

PESTILENTIAL PROFIT

by S. J. McADDEN, M.P.

THE future of Britain depends on the creation and maintenance of trust and good faith between management and man. This vitally important truth is so well understood by most people in this country that it ought to become an axiom of the industrial code. It is one thing, however, to state an axiom and another thing altogether to put it into practice.

There are many obstructions on the path leading to trust between employers and employees. The greatest is the vexed question of profits. The controversy which rages around this subject has a basis which is quite unreal. This unreality produces a fertile field ploughed with great success by anyone who may be determined to prevent the creation of good faith between all sections of industry. Much of this ammunition for the agitator is provided by the very people whose vital interest revolves around the destruction of the current misconception on profit.

A clear-cut example of how misrepresentation may be produced can be found in the factual history of the experience of a company which during a recent year made a gross profit of £3 million. This produced a banner headline in the Press and resulted in a leaflet being circulated by the shop stewards' committee to the workers in this company.

The leaflet read:

'Your company made £3 million profit. With about ten thousand employees, divide one by the other and see how much YOU made.'

The amount of the profit was accurately stated, the number of employees was roughly accurate and the clear inference of this leaflet was that every employee of this company had made £6 per week for the company. The inference, however, was far from the truth.

Lion's Share

The fact was that after paying taxes the amount of profit left to the company was £1,200,000. The lion's share of this £3 million, viz. £1,800,000 went to the State and much of this was spent by the Government on services to the individual men and women, including the agitators.

Before a single penny of the remaining £1,200,000 went to the shareholders, substantial provision had to be made for the replacement of plant at the very much greater prices prevailing

today than when it was bought. In any ordinary concern which has existed for a number of years, the depreciation charged in the accounts before a figure of what is called 'profit' is arrived at, is based on the original cost price of the existing assets. But to provide depreciation on this basis would ensure that the business in question had no more than about half of the money which will be required to buy new assets to replace the old ones when they are worn out.

To ensure, therefore, that the company is able to maintain itself, and its assets (upon which the income not only of the shareholders, but the wage-earners depend) a further sum has to be set aside to provide for the extra cost of replacement of assets at inflated values. To do this another £200,000 to £300,000 out of the £1,200,000 would have been required, and the figure of true profit available to the shareholders would have been reduced to about £900,000.

Even this figure of £900,000 can be drawn out by the shareholders in the form of dividends only at the expense of future progress, for the main source of money to expand the business and therefore the payroll, is this sum of £900,000.

Maintaining Good Faith

That America is the most prosperous country in the world today with the highest standard of living for its wage-earners the world has ever known, is due above all else to the fact that the people of America realize that good profits mean good wages and an expanding payroll both in number and size of pay packets.

Facts of this kind need to be driven home continually to the working population of this country if trust and good faith between management and men are to be constructed and maintained. While many firms have made valiant efforts in this direction, surely the task calls for a combined effort on the part of the accountants, stockbrokers and financial journalists, to put profits into their proper perspective and to attempt to withdraw them from the field of agitation.

It should not be beyond the wit of people in these professions to start to refer to profit as the 'surplus' earned by a company, and to emphasize that the return to the shareholder in the form of dividend is almost invariably the smallest

element in the use of this 'surplus'. At the same time it should be possible for the three bodies mentioned to distinguish between declared dividend and yield. A declared percentage in the form of dividend on the original capital of a company presents a completely false picture of the shareholding situation in such a company.

Is it not possible to use a new formula? If it were announced that 'the dividend on the ordinary shares will amount to 1s 4d per share which at the present market quotation of the shares of 27s 6d represents a return of 4.84 per cent', the impression given by such an announce-

ment would be much more accurate than a declaration that a dividend of 40 per cent would be paid on the shares the original value of which was 3s 4d.

If this form of dividend declaration became normal company practice and if the misleading term of profit was replaced generally by the term surplus, then great strides would have been taken to educate the public as to the true significance of the earnings of industry and to destroy the effects of the half-truths flowing so freely today from the lips of anyone whose purpose it is to bring the country down in ruin.

THE WORRIES OF THE WINDFALL PROBLEMS OF THE POOLS PRIZEWINNER

by A. G. McBAIN, C.A.

RECENTLY I became acquainted with the nightwatchman on a nearby housing estate. Youngish and married, with young children, he is intelligent and contented with his job. His contentment, it appeared, lay mainly in the fact that his job gave him ample time to fill in football coupons and he has a touching belief that one day £75,000 will be his.

The other evening it occurred to me to explain to my friend what exactly would happen to him, financially, if he did win the £75,000. I must confess that, not having thought about such an eventuality before, I was nearly as surprised as he was.

First of all, I said, he would take the cheque for £75,000 to a bank and the manager would no doubt invite him to open a current account. The bank manager would then point out that he must, as the Americans say, put the money to work, and would probably give him an introduction to a stockbroker. At this point, my watchman friend interrupted me to say that he had never dealt with a bank and had little idea what a stockbroker did. I did my best to explain.

The stockbroker or the bank manager would (or should) be taxation conscious and advise our friend that, for stamp duty, estate duty, surtax and income tax avoidance reasons, he would no doubt want to make immediate gifts of a portion of his prize to (a) his wife, and (b) trustees to hold in accumulating trusts for his children. Now was the time it would be suggested to think about this so as to avoid double stamp duties (if he wanted to pay stamp duties).

A Voluntary Tax

Being intelligent, he intervened to ask if payment of stamp duty was not compulsory, but I pointed out that certain methods of avoidance in connection with share transactions now made it – in a great number of transactions – a purely voluntary tax. This greatly surprised him (as it does a good number of others).

Then, I went on, he would no doubt want to buy a house in keeping with the position of a man worth £75,000 and if neither the bank nor the stockbroker had advised him of this, he would find it necessary to consult the inevitable lawyer, who would undoubtedly tell him that before starting house purchase negotiations, it would be advisable for him to draw up a will. Furthermore, in view of the complexities these days of drafting wills for people of such wealth, it might be necessary to consult specializing counsel. But might this not be expensive? 'No,' I replied, 'it would be cheap in the long run.'

As a next step, the lawyer (like the bank manager or stockbroker) might well suggest that he give a portion of the money to his wife and a portion to trustees for his children to accumulate in Section 228 trusts. As regards both gifts, I explained, he would require to live for a period of five years in order that estate duty might be avoided on the amount of the gifts. This, he thought, was nonsense. Could not any free man in this liberty-loving country hand his wife the money in treasury notes so that the money would be absolutely hers? I told him that if he wished to remain a law-abiding citizen, he could not do so.

Was it Worth It?

Much puzzled, my friend then asked me to tell him a little more about estate duty because, he said, as a working man, the thing sounded odd to him. I replied that the rate of duty on £75,000 was 40 per cent. This upset him completely and he now wondered if the prize were worth winning at all. This 40 per cent was really too much. I told him worse was to come.

The lawyer would, in due course, tell him that a house suitable to his new station in life had been offered to him. It was to be had at a moderate price in view of its size and position. He would inspect the house and find that a good deal had to be spent on it so that it would measure up to his new requirements.

His legal adviser would then warn him that before incurring substantial expenditure in re-decoration or alterations he should ascertain the basis on which his maintenance claim was likely to be made. This would depend on whether or not he was in a position to 'inherit' the maintenance claim figures of the previous owner or whether he was obliged to depend on the concessionary treatment accorded to new owners. My friend asked me to make some sense of this as he was rapidly losing patience with all this frustration. I did my best.

The next stage in his new sphere, I pointed out, would be his introduction to surtax. I said that if no one had told him so before, he would be advised to consult a chartered accountant. What, he asked, were they? I replied that they were a body of men reputed to be without humour, with their feet firmly planted on the terra firma of facts and figures; being prosaic realists they regarded romance with the same suspicion as an expense account! But he could rely on them to do their best as between him and the Revenue. All this bewildered my friend even more; he knew an income tax coding notice when he saw it and could he not, therefore, leave all his taxation affairs safely in the hands of the Revenue? At this point, in a mood of near exhaustion, I almost gave up – there seemed so much to explain.

The Search for Loopholes

Persistence prevailed, however, and ploughing on I told him that there was a continuous flow of taxation legislation and a constant search for loopholes in the legislation, both old and new. Some of these devices, evolved or discovered by the lawyers and accountants, were perfectly legitimate, but many others were regarded as

anti-social or unethical. Some people, I continued, have been known to consult professors of moral philosophy on the propriety of resorting to tax avoidance devices because, strange as it may appear, there is no prescribed code of taxation conduct, and the Board of Inland Revenue (or, in theory, the Chancellor) fitfully keeps trying to stop up the holes by the enactment of sporadic legislation. This aspect of our discussion ended with my explaining that there are no less than four textbooks wholly devoted to tax avoidance and aggregating about 1,000 pages of the printed word – most of it very difficult reading.

A Unique Tax

By this time it was getting late and there was time for only a brief exposition of surtax and monetary policy. Surtax, I explained, was a unique tax in that everyone, before his income reached that level, was convinced that given such an income, he would gladly pay the tax, but no tax is ever more grudgingly paid. My friend would be liable to surtax not only on his own income but on that of his wife from her new-found income from investments and he might in certain circumstances, unless he took care, be liable to income tax and surtax on the investment incomes of any of his children under 21 and unmarried.

In his new state of wealth he would no doubt consider it necessary to buy one of the staidier morning papers to see what was happening to the securities which the stockbroker had purchased for him. In many cases he would find that they had declined in value and some of these falls would be explained by a reference to the monetary policy of the Government of the day. This he would discover to be the most infuriating of all the experiences life held for him in his new position of affluence. He would find how men, otherwise sensible, become the prisoners of ideas; how monetary principles which were workable and relevant years ago under very different economic conditions from those which prevail today, were nevertheless still being solemnly paraded and proclaimed, while the people of a country looked on, helpless and bewildered.

On this sad, but contentious note, I left my friend, moodily stoking the dying embers in his brazier. I have returned at odd intervals to the housing site but while the subject is no longer raised I get the impression that he is silently accusing me of robbing him of his innocent day-dreams by uncovering some of the unpleasant complexities of modern-day existence, best ignored or forgotten.

VERIFICATION OF ASSETS

by C. ROMER-LEE, M.A., F.C.A.

LET me start by saying that I propose to talk about assets as they relate to the balance sheet of a limited company whose accounts conform with the provisions of the Companies Act, 1948, and that the auditor is carrying out his duties in compliance with that Act.

If you are dealing with the balance sheet of a partnership or sole trader I suggest that similar procedures should apply, although of course in such cases the auditor is not under any statutory obligation and the duties which he performs can be defined by mutual arrangement between himself and his client. If, however, he gives an audit report in terms similar to that required by the Companies Act, it would be presumed, I think, that he had done as complete an audit as if his client was a limited company.

The auditor's duties and rights are set out in Section 162 of the Companies Act, 1948, and in the Ninth Schedule is given a list of the matters on which he has expressly to report. I will not dwell on these matters now as they do not bear directly on our subject, but we must remember all the time that the underlying principle is that the balance sheet and profit and loss account should present a true and fair view of the state of affairs of the company and of its profit or loss. In order to give a true and fair view of the assets appearing in a balance sheet, it is almost elementary to say that the auditor must satisfy himself that they *exist*, and so now we come to the main subject of this talk.

It is clear at the outset that a conflict of thought can arise in the way the auditor sets about the verification of assets. He is not a lawyer, engineer, chemist or any other kind of technician (some people, indeed, have called him nothing more than a mere scorer and often many worse things than that!). He must therefore set about his task of verification from the two standpoints in which he is qualified; these I will call, first, his training as an accountant, and secondly, his innate common sense.

His training as an accountant enables the auditor to establish the cost of an asset. This will be done

from the records of documents and the documents themselves passing through the company's hands at the time the asset is acquired, and may include contractors' accounts, purchase invoices, wages records, stores issue documents, agreements, solicitors' statements and other types of correspondence.

The original cost of an asset, though, does not necessarily prove its continued existence or ownership, and it is in this direction that what I have called common sense plays an important role.

Common sense tells us that we are in a good position to verify satisfactorily existence and ownership, if we either obtain some corroboration of ownership from a source independent of the company, or else prove existence by actual inspection. It may even be desirable to combine both methods. So we will now examine various kinds of assets and see how we can verify their existence by reference to one or all of these three criteria: original cost; outside corroboration; physical inspection.

Shall we deal first with those assets normally described as current in a company's balance sheet?



Mr. C. Romer-Lee

Balances with Bankers and Cash in Hand

You cannot inspect a bank balance but you can and should count the petty cash. When doing so it is important not only to maintain an element of surprise but to make sure that you are aware of all the cash which either belongs to the company or comes under the control of its officials. These would include such things as cash floats, cash in hand for payment of wages, petty cash, unclaimed wages, savings schemes, canteen takings, and cash received in the ordinary course of business since the previous day's receipts had been paid into the bank.

To do a satisfactory cash count you should take a good deal of trouble to pave the way beforehand so that you are sure that you know exactly where to go to find all the cash which you will have to account for. Difficulty may be experienced where there are unofficial cash balances kept by members of the staff in a private capacity such as Christmas draws, slate clubs and so on. The best thing in these cases is for the auditor to arrange for them to be taken over officially by the company's cashier, or else for them

A lecture given at a meeting of the Sussex Chartered Accountant Students' Society on October 26th, 1957. Mr J. W. Mitchell, A.C.A., was in the chair.

to be run quite unofficially from somewhere outside the office. Generally speaking, it is more satisfactory that a company should pay all cash into the bank at regular intervals and if this is done the cash count will not be unnecessarily difficult. In some businesses, though, such as hotels, a large amount of cash is often required to be readily available to meet visitors' deposits and the changing of cheques. This situation underlines one of the basic requirements of a cash count, namely, that enough audit staff should be available so that all the places at which cash is held can be visited at the same time. The dangers of not doing so are obvious, but it is surprising how a thing like this can be overlooked.

As for bank balances, the auditor should himself apply to the bank for a certificate to be sent to him direct. This letter should ask the bank to supply a note of all the balances standing in the client's name and the balances shown thereon should be reconciled with the balances appearing in the client's books.

I should like at this point to enlarge on a custom which is gathering favour with auditors and which is designed largely to counteract a fraud which is growing more common, known as 'teeming and lading'. By this phrase I mean the practice of wrongfully abstracting or withholding cash received from one debtor and making up the deficiency by substituting cash received at a later date from another debtor. This sort of thing can only go on where the internal control is weak, but where it is going on the two halves of the bank paying-in book will probably differ: that given to the bank will show details of the individual cheques and cash which were actually paid to the bank; that retained by the client will agree with the details of the amounts required to be entered in the client's sales ledger or similar debtors' records. In order to detect such a fraud as this in its early stages, it is becoming more general for an auditor when asking a bank for a certificate of balances, to submit with his letter of request a selection of his client's paying-in slips (or copies thereof) requesting the bank to confirm that the details shown thereon are the same as those given on the bank's copy. Any discrepancies in the detailed figures will give the auditor cause for inquiry.

Investments and Tax Reserve Certificates

It is usual for these assets to be lodged with a bank for safe custody, in which case the auditor can rely on the certificate from the custodian that they were held on behalf of the client at the close of business on the balance sheet date, and were free of lien or other charge – or, if such be the case, that they were held as security for overdraft or loan facilities. Here independent verification can be obtained by the auditor writing to the custodian himself and requiring the reply to be posted directly back to him. It is not a sufficiently independent verification if the custodian replies to the client who then hands the certificate on to the auditor.

In some cases physical inspection of investment

documents still takes place, mainly in the case of an audit of a bank or insurance company. If this method of verification is adopted, care must be taken to see that it is methodical and thorough. Not only must the auditor see all the securities, but he must also be sure that the arrangements are such that the same securities cannot be presented to him twice to satisfy two different holdings of the same stock. This is very relevant where stocks and shares are held on behalf of third parties, as may often be the case in a bank; also, for instance, where there may be large holdings of bearer bonds, which are tied up in bundles of, say, one hundred bonds. A client with intent to defraud could possibly arrange so to confuse the auditor as to allow one or more bundles to be counted twice.

As to the cost of investments or other securities, this can be established by reference to a broker's note, and once the original cost has been set up in the books, subsequent verification becomes a matter only of satisfaction as to physical existence, either by a custodian's certificate or by inspection, as I have indicated. A useful side-line on the continued existence and ownership of an investment is to see that it produces all the income which it should during the year. This, of course, is a necessity when vouching income, but it also proves a good source of inquiry if one is trying to find out what assets have to be verified at the balance sheet date. It must be remembered, though, that income can be received from an investment which is pledged or mortgaged and that it may have been disposed of after having yielded its full income for the year but before the date of the balance sheet. Verification of income, therefore, although a very necessary part of an audit, is not a substitute for the verification of an asset at the end of the financial year.

Debtors

Let us think back for a moment to our three methods of approach to the verification of assets – physical inspection, outside corroboration, original cost – and see how they can be applied to debts. A debt represents a claim against a person for payment for goods supplied or services rendered. I would not suggest for a moment that anything would be gained by going to inspect the debtor himself, or herself – physical inspection of this sort might lead to all sorts of other claims! So we must be content with a much more prosaic, humdrum inspection of ledger balances.

The extent to which sales ledger balances are checked to detailed lists will depend on the system of internal control and on the size of the business. If there are few customers, each account will be looked at carefully by the auditor and the balance examined to make sure that it is composed of recent transactions which can be identified. If this is the case, and the period of credit has not been exceeded, the auditor need have no qualms about including the debt in the balance sheet at its full value. Of course, still more convincing evidence of a good debt is to find that it has been paid in full subsequent to the

balance sheet date. Old debts, or partly-paid balances, may indicate disputes with the customer and the auditor must make inquiries of a responsible official to satisfy himself that the provision for bad debts is adequate to cover any possible non-recovery of old or disputed balances.

In a large retail business there may be tens of thousands of debtors and it would be impracticable for the auditor to check every balance on to the extraction lists. In such a business it would be surprising if there were not sectional control accounts and the auditor will have satisfied himself while he was making his inquiries into the system of check, that there was proper control over, and recording of, dispatches of goods and receipt of cash. If these are satisfactory he will find it sufficient to test only a few of the ledgers on to the detailed lists of balances.

In some businesses the sales ledgers are so numerous that it is not practicable even for the client to list all the balances in detail at the year end. In such cases, a certain number of ledgers are balanced each month with their respective control accounts, and the auditor can make a selection of those which he wants to test with the ledger sheets and agree with the control accounts. When only a test is done, like this, it is clearly important for the test to be comprehensive—that is, that all the balances of the ledgers selected should be examined and checked to the extraction lists. Frequently the heading 'Sundries' hides a multitude of differences and unexplained items, and the auditor should probe all these odds and ends, as they usually throw much more light on the client's methods than all the straightforward balances put together.

The test as to the original cost with regard to debts is covered by checking the balances on to the lists or the trial balance, but the point to remember here is that you are seeking to establish a true debt, i.e. the amount which represents a definite sale or other acceptable charge to the customer. This means that the items forming the balance on each account looked at should be recognizable as individual debts. Payments of round sums on account may leave the debtor the right to say later that he had not applied that money against specific debts, which then might subsequently become bad debts. Similarly, part-payments of specific invoices may mean that the customer disputes the charge and only recognizes the amount he has paid.

Now a word about outside corroboration of debtors, or to use a phrase in more common use, the circularization of debtors. This practice has become more usual among auditors in recent years, indeed it is one of the generally accepted audit procedures in the United States. There are two ways of doing this, known respectively as the 'positive' and 'negative' methods. If the former method is used, a letter is sent by the auditor to the debtor setting out the balance on his account. This can well be a copy of his ledger statement at the accounting date. A slip is attached to the letter which the debtor is asked to

return to the auditor and on the slip is a confirmation to be signed by the debtor that the account is in order, or alternatively giving the matters of disagreement. The 'negative' method of confirmation involves similar procedure, but the debtor is only asked to reply if he does not agree with the balance stated in the letter. It is often convenient to use a combination of both methods, a small number of large balances being confirmed positively, while a large number of small debts are confirmed in the negative manner.

Hire-purchase and Instalment Debts

A type of debt which often causes a lot of trouble on verification is in respect of hire-purchase, or of sales which are payable by instalments. The point at issue here is that the present value of a debt which is payable by instalments over a period is less than its face value. Where the debt is in respect of plant, machinery or motor vehicles, the instalments are probably large and not numerous and each can be valued on its merits having regard to the particular terms of each contract. Under hire-purchase agreements, it is normal to apply the profit earned on the transaction to each instalment and only to take credit in any accounting period for that proportion of the total profit which applies to the instalments received during that period. To give effect to this object a number of formulae have been prepared which are designed to give effect to the varying intentions of different contracts. One in particular known as the 'Nottingham scheme' has been approved by the Inland Revenue authorities for the general valuation of instalment debts.

There are, however, other formulae in use which have also been approved by the Inland Revenue.

A company selling, for example, household supplies and clothing on credit terms may have many thousands of debts, the average amount of each being as low as £5. The valuation of each debt on one of the recognized formulae is a formidable operation and will probably produce many errors, the majority of which may only be of a trifling nature. It is clearly impracticable for an auditor to check the valuation of each individual debt and therefore he should make a test check which should enable him to form an opinion of the total valuation.

- (a) He must satisfy himself that the formula has been correctly understood and used by each person who has valued debts, and that no errors of principle have been made. A test should therefore be made of at least a section of each valuer's work.
- (b) He should see that errors of a clerical nature do not materially affect the total valuation. This can be done by listing in columns the mistakes discovered during the test-checking and comparing the net difference with the total debts examined. In practice it will usually be found that these mistakes tend to balance themselves out.
- (c) A watch should be kept for credits appearing

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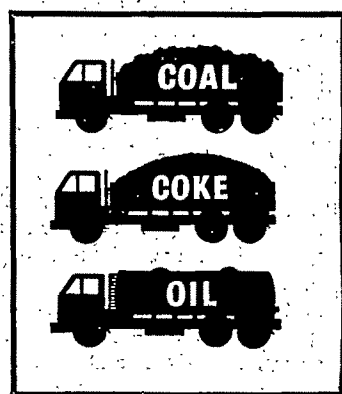
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after the date of the valuation, as these may indicate fictitious sales in the last weeks of the financial period. Debts might therefore be valued at 100 per cent whereas under the formula the value would really have been below their book value.

Stocks and Work in Progress

The verification of stocks and work in progress can often involve the auditor in a large amount of work and no little thought. It is convenient to consider the subject under three headings, raw materials, semi-manufactured stock or work in progress, and finished goods, although some considerations will apply to all three headings.

The existence of raw materials is usually based on a physical count at stock-taking time from which stock sheets are compiled. These sheets should show the physical quantity, price and extended value, as well as a description of the goods in sufficient detail to enable them to be identified. In some businesses it is not the practice for all stock to be taken at the same date and in these cases the stock sheets will be prepared from the stores records which in turn will have been checked by physical stock-takers at intervals throughout the year. You will not at this moment expect me to enlarge on the details of a system of continuous stock-taking, as it is called, but I should just like to refer to the necessity of inquiring into differences revealed by the physical count and of making the appropriate entries, both on the stock records and in the financial books to give effect to such differences. Such entries must, of course, be authorized by a responsible official before they are put through the books.

Having then been presented with the stock sheets extended, cast and summarized by the client, the auditor has to satisfy himself as to their correctness. Here we can refer again to our three standards, namely, original cost, physical inspection and outside verification. Original cost of stocks can be established by reference to invoices, orders, contracts or other documents setting out the cost of raw materials.

Outside verification will not be necessary except when stocks are held by third parties in warehouses, factories, etc. Very often reserve stocks of raw materials or even of finished products are held to the client's order in warehouses. Here a certificate should be obtained by the auditor direct from the custodian that the stores were held on behalf of the client at the accounting date and were free of lien or other encumbrances. Similarly, stocks of finished goods may be stored outside the company's premises when sales are not going as well as predicted or also in anticipation of Christmas or other seasonable trade.

Attendance at Stock-taking

Attendance at the time of physical inventory-taking is becoming a more and more common procedure among auditors. I myself think that this is a sensible and practical development of our professional work,

for the auditor is clearly on safer ground if he knows the nature of the goods represented by the records which he is examining. There are, however, certain aspects to remember when an auditor is present at physical stock-taking. The principal reason for his presence is to see that the methods adopted are orderly. That means that he first must have studied the stock-taking instructions and be assured that they are comprehensive. For instance, provision should be made for the stock to be counted by individuals who are not directly connected with the store-keeping, although the store-keeper or one of his staff should be available for advice of a technical nature if a question arises to do with the identification of parts or materials. The stock-taker's duties will include the counting of all goods physically present, therefore the instructions must cover the treatment of goods which have been delivered to the premises for which invoices have not been received, and conversely. Here the uncleared goods received notes will form the basis of the reconciliation. It must be clearly understood that an auditor is not an engineer, a chemist or any other kind of technician nor can he be an expert valuer. All the same, by being present at the physical stock-taking, he gets a general impression of the way the stores are managed and this will help him to form an opinion of the degree of reliability of the stock sheets.

I well remember, on one audit, putting on overalls and climbing over storage tanks to watch a man measuring the contents by lowering a dip-stick to the bottom of the tanks. I could see that when the dip-stick was pulled out it was wet up to a certain point and dry above that. But I must admit that the liquid which had made its mark might as well have been water as the particular chemical it was said to be. However, this test was not so stupid as it sounds for one could see that the storage tanks led straight to the processing plant which presumably required the correct liquid to work properly. Another precaution which we adopted was occasionally to take a sample of the liquid in a tank and send it off for analysis to a chemist of our own choosing who was asked to send his report direct to us. In ways such as this I think we as auditors can reasonably avoid having our legs pulled by too obvious a fraud.

Semi-manufactured Stock

Having considered stock records of raw materials, the next stage is to think of work in progress, or semi-manufactured stock as it is sometimes called. Where the period of manufacture is short it is usual to find that a physical count of work in progress has been made in the same way as for stocks. There are, indeed, many problems which can arise on work in progress, most of which are peculiar to the particular business, and so you will not expect me to deal with this subject in any great detail. I will, however, enlarge a little on manufacturing contracts which may take some time to complete. In these cases

it is not usually practicable for a physical inventory to be taken, so the auditor is forced to rely almost entirely on cost records. Here, in fact, original cost becomes a most important matter, for it is often the only means of verification open to the auditor. He must therefore satisfy himself that there is a satisfactory system for building up the cost records. Direct costs such as purchases, wages and issues from stores must find their way to the correct contract or job number. This should not present any difficulty in a business which has any sort of an accounting system.

Overheads

The application of overheads may, however, present problems. This is hardly a matter connected with verification of assets – it is more a matter of valuation with which I am not concerning myself very much today. To be logical, some portion of overhead expenditure should be carried forward as applicable to unfinished contracts and therefore not recovered until payment is received for those contracts. In assessing a year's profits, however, it is probably more important to be consistent than logical. This is the main point, that work in progress should be valued on the same basis at the beginning of the year as at the end. Overheads, if included, must be calculated by reference to a constant principle: it may be by a fixed percentage to direct wages applied throughout; it may be by varying percentages according to the different shops or departments; it may be on a time basis, or by reference to the space occupied. Whatever the basis, it must be consistently maintained, or else the effect of a change in basis on the year's profits must be noted. This is something of a digression, but it is an important matter and I hope you will forgive me.

To return to the verification of work in progress. The auditor, having looked at the way in which the costs are prepared, must satisfy himself that the work is being carried out for bona fide customers. Here, outside evidence comes into force, for somewhere there will be a contract, order, or other series of documents leading up to the beginning of the actual work. The terms of the contract should be noted for, apart from the aspect of verification they will be useful to the auditor in his assessment of the value of the contracts in progress. Special conditions, time elements, penalties, bonuses and so forth will all fall to be considered. Progress payments will also be evidence of genuineness and, indeed, it should be seen that payments on account are being received at the stipulated intervals. These payments on account are usually very important to the client, particularly where long-term and expensive contracts are involved, such as construction work, shipbuilding, aeroplane manufacture and so forth.

Stock Valuation

I should like to end what I have to say about stocks and work in progress with a word of warning, for

I have talked with the emphasis on verification and with very little mention of valuation. The two are so closely linked, though, when dealing with this type of asset, that it is no use trying to deal with one without reference to the other. The valuation of stock is just as important as its verification and I would here refer you to Recommendation No. X¹ issued by The Institute of Chartered Accountants in England and Wales in June 1945.

This publication sets out some very clear pointers on the question of stock valuation. The distinction is drawn between raw materials on the one hand and semi-manufactured or finished parts on the other. The former are usually valued at cost or market value whichever is the lower. This takes account of falls in prices over which the client has no control, and reflects in his accounts events which have happened in the accounting period. If, for any reason, his raw materials became obsolete or spoilt before he introduced them into his processes, then they would appear in his accounts at the value at which he could sell them. However, once having started to work on the raw materials, their marketability in their original form has ceased and they only become of real value when they become saleable in their new form, that of a finished product. Thus they have a value peculiar to the business, which they acquired by being incorporated in a different product and which will only be realized when the different product is sold. Here it is usual to have regard to the ultimate selling price of the finished article. So long as the value attributed to the work in progress can reasonably be expected to be recovered in the final selling value (after allowing for future costs of completion and for selling expenses), I do not think the auditor can have any grounds for dissatisfaction.

Fixed Assets

We now come on to the verification of fixed assets, and here we depart from current values or even marketability. Fixed assets are acquired to enable a company to carry on its business. They accordingly have a value peculiar to that company only, which value may not be the same as their realizable value. Original cost and physical existence are therefore the important criteria; outside corroboration is not generally practicable, except in cases of movable assets, like ships, motor-cars and aeroplanes or where investments are involved. Furthermore, original cost is really a once-and-for-all verification which is done when the asset is acquired and entered in the books, where the entry remains for each subsequent audit.

So we come down to the fact that obtaining evidence as to physical existence and ownership is the principal part of an auditor's duty with regard to the verification of fixed assets. I have already referred to the obtaining of the certificates for investments from bankers or other custodians, and this procedure

¹ See *The Accountant* dated June 16th, 1945, at page 302.

should be followed whether the investments are treated as fixed or current assets.

Plant and Machinery

It is not very usual to find an auditor taking much time over the verification of the existence of plant and machinery. Whether this is desirable or not is a matter of opinion, but it seems to me that it merits as much attention as any other asset. To my mind there should be a plant register and it should be part of the client's routine procedure for this register to be checked with the plant which is in existence. If this is done systematically, the auditor can be assured that the entries in the financial books really represent the plant and machinery which is actually there. The plant register should, in addition, show the depreciation written off each item each year, so that when the balances are listed, totals are available of both the original cost and the total depreciation written off to date. There is much merit in the auditor arranging periodically to inspect physically some of the machines listed in the register and to identify them – he must remember that under the Companies Act, 1948, the figures appearing as cost and depreciation written off to date in the balance sheet are meant to relate to assets which were in existence at the accounting date.

Furniture, Fixtures and Fittings

All the remarks which I have made about plant and machinery are equally relevant to furniture, fixtures and fittings. It is probably even less usual to find a register of these assets, but I would suggest that it is probably even more important that such a register should be kept.

One often finds a large number of fairly small items included under this heading, and it is therefore correspondingly easier for them to be mislaid or accidentally destroyed. In my experience I have often noticed a tendency to 'snowball' this asset by adding the annual cost of additions and never deducting anything for withdrawals or scrapings. Granted that it may be difficult to keep a satisfactory control over all the multitude of items which may go to make up furniture and fittings; all the same, I feel that where this heading amounts to any size, the auditor should at least suggest to his client the desirability of having a register and that this register should be periodically checked with a physical inventory. At the same time, one can imagine concerns where the keeping of an accurate register might involve expense out of all proportion to its value, for instance, in a multiple shop business where shop fittings were constantly being moved from branch to branch. Here difficulty will undoubtedly arise over finding the necessary information to eliminate items sold, scrapped or broken. One may feel satisfied that the net value of such assets appearing in the balance sheet is reasonable, but it is possible that after some years the figures for both the original cost and the accumulated depreciation will become unduly inflated,

as neither will have been reduced in respect of items which have been sold or scrapped. One method of avoiding this situation is as follows:

- (i) An estimate is made of the average life of the particular assets (say ten years).
- (ii) Depreciation is provided on the 'straight-line' method to eliminate the cost during the estimated life of the asset.
- (iii) At the end of the tenth year, when the assets purchased in the first year have been fully depreciated a deduction is made from both the cost and the accumulated depreciation of the amount of the additions in the first year. Similarly, in the eleventh year the cost of the additions in the second year is deducted from both the cost and the depreciation. In this way the figure of 'cost' in the balance sheet is kept more or less in line with the cost of the assets actually in use by the company.

Ships and Motor Vehicles

Physical verification of assets such as ships, aeroplanes and motor vehicles can often be carried out by inspection, but this alone may not satisfy the auditor as to the ownership, for which some sort of outside corroboration is usually necessary. In the case of ships, for instance, the port register can be inspected, or if this is not convenient a certificate obtained from the registrar of the appropriate port of registration, or alternatively a certificate can be obtained from the Registrar-General whose office moved to Cardiff at the beginning of the Second World War and has remained there ever since.

Every motor vehicle should have a registration book indicating its owner when the licence was last renewed. Assuming that all licences are current, these books should form a satisfactory method of verification, subject to changes which may have happened since vehicles were last licensed.

Leasehold Land and Buildings

If property is leasehold, some sort of rent is payable and the most satisfactory method of verification is by vouching that the correct rent has been paid and that the landlord has given a clean receipt. In the first instance, of course, the lease will have been inspected by the auditor and extracts of the relevant sections made in his permanent papers. Thereafter, I feel, it is not necessary in the case of a short lease to see the document on the occasion of each audit. If it is a long lease, however, or one which could be mortgaged, the auditor should inspect or verify its existence in the same manner as for freehold properties, to which I shall refer in a moment.

In passing, I should just mention amortization of leasehold property. Normally all buildings erected on leasehold land revert to the landlord at the end of the lease, therefore it is necessary to write off all expenditure on such assets before the lease expires. There is more than one method of amortizing this expenditure but I must say that I prefer the simple straight-line

method whereby the expenditure is charged to revenue by equal annual instalments spread over the period of the lease or the estimated life of the building or other asset, whichever is the shorter.

Freehold Land and Buildings

In this case, the existence of the asset is usually obvious to anyone who visits the company's premises, and so verification generally implies satisfying the auditor that the company has a good title to the property and that it is unencumbered or else is subject only to mortgages or other charges known to the auditor. One way of doing this is to inspect the title deeds, another is to obtain a certificate from a banker, solicitor or other custodian that the deeds were in his possession at the balance sheet date and were not charged or mortgaged, or alternatively were held as security for specific charges which should be named on the certificate.

If the auditor inspects the deeds himself, it is more than likely that he is not in a position to know whether they convey a good title or not, as this requires a lawyer's knowledge of conveyancing. I suggest, therefore, that when freehold property is first acquired it is part of an auditor's duty to see from correspondence and any other available evidence that the solicitors have satisfied themselves that the company was acquiring a good title to the property. Once having done this and made any necessary notes in his permanent papers, it is only necessary at subsequent audits to see the deed which conveys the title in the property to the company and to see that no further charges have been made on the property.

Where a company owns many properties, the inspection of title deeds each year can be a long and expensive job. There is a great saving in time, if the client is willing for the title deeds of each property to be parcelled up and sealed by the auditors. If the parcels are properly indexed, it is a simple matter for the deeds to be checked with the list of properties each year. Of course, this method may not be practicable if there is a considerable amount of buying and selling of properties or need for reference to the deeds.

In certain parts of the country a land registry is in existence as set up by the Land Registration Act, 1925, which issues certificates as to ownership. These have to be surrendered when the land is sold and so constitute a valid proof of ownership in the hands of the holder. Similarly, when registered land is mortgaged or otherwise made the subject of a charge, the Act requires such charge to be recorded in the register and so on the certificate. A land registry certificate, therefore, provides satisfactory evidence of title to property and incidentally is much neater than the bundle of deeds which lead up to the normal conveyance.

I would just interpose here a word of warning in connection with amalgamation of companies. Where a new company or other body is formed to acquire

properties owned by former undertakings, one frequently finds that one comprehensive conveyance is prepared transferring all the properties into the name of the new company. This, naturally, is the document which the auditor sees at each audit, having on the first occasion satisfied himself that the lawyers appear to have collected together all the properties accruing from the old companies. All goes well until the new company sells a part of the properties conveyed by the deed. Although a new deed is prepared which gives a perfectly valid title to the purchaser, one seldom finds that the old deed has been endorsed to the effect that a part of the properties to which it refers has been disposed of. An auditor's only remedy in such a case is to make a note of the sale amongst his permanent papers. If, on the other hand, the new company had registered its property at the land registry, the sale could not have been effected without submitting the certificate to the registry for endorsement.

Certificates

There is one thing that I have not mentioned at all so far and that is the obtaining by the auditor of certificates from the company's officials as to the existence and condition of the assets. One may well say that if an auditor has done his job properly he should have no need to get the company to give him such certificates - in fact I have had it said to me by a director of a well-known concern that he relies on the auditors to tell him that everything is all right, and that his assets are properly verified and valued and so forth.

Well - fair enough - that is certainly all part of an auditor's job, but my reply has always been to the effect that the auditor is there to check his client's records, and if the client does not know what his records are meant to record, how in the world can the auditor do so? And so one usually finds that an auditor completes his verification of assets (and liabilities for that matter) by getting his client to sign certificates covering stocks, work in progress, debtors, properties, plant, as well as liabilities. Although fairly wordy, these certificates really confirm that the conclusions reached by the auditor as a result of his work are in line with the views held by the management both as to the ways and means by which the company should carry out its business and as to the entries which should appear in the books as a result of the company's operations. They also cover any special knowledge the management may have of circumstances which are not yet reflected in the books.

The subject on which you asked me to talk to you is a large one and an important one, but I hope that I have done something to show you that it is not necessarily a difficult one. You will solve the problems presented in practice if you remember to use common sense in the application of the three yardsticks which I have mentioned, original cost, outside corroboration and physical inspection.

Weekly Notes

Economic Debate

When the House of Commons resumed its sittings on Tuesday after the summer recess, the Chancellor of the Exchequer opened a debate on the economic situation. He said that the combined investment of all public authorities in Britain would be held (in money terms) during the next two years at the level of 1957-58, approximately £1,500 million. This was still a formidable advance and if prices were held stable it could be achieved. Investment in the next year in power (coal, gas and electricity) would be £450 million. £100 million would be spent on the roads in the next two years; and about £170 million would be invested in the services of the British Transport Commission in each of the next two years. Housing, however, would be slowed down to about 80 per cent of the former rate.

In the private sector he had asked the banks to control the supply of money: they intended to hold the average limit on advances in the next twelve months to the average limit of the last twelve months. The Capital Issues Committee would intensify its critical attitude to applications for borrowing permission.

While appealing for restraint in wages and in profits, Mr Thorneycroft added that in relation to profits, restraint in distribution would also help the national purpose. If that is so it is difficult to understand why he has withdrawn the long-standing concession which protects the trading companies from surtax directions for not distributing their profit. In any case, the speech does not augur well for any relaxation of the two-tier profits tax structure.

Damages for Breach of Hire Contract

It has now been belatedly established that damages for the breach of a contract to hire should be assessed on the principles applicable to the breach of an agreement to buy goods (*Interoffice Telephones Ltd v. Robert Freeman Co Ltd*, *The Times*, October 25th, 1957). The defendant had agreed in 1950 to hire the plaintiff's telephone system for twelve years at a basic rental. In 1956, defendant had to move to new premises, had no further use for the telephones and repudiated the contract.

The plaintiff always had a supply of internal telephone systems, in order to meet anticipated demand which was of the order of seven new contracts a year. The trial judge took the view that as the plaintiff was under a duty to mitigate damage it must be treated as having re-hired the system in question within a reasonable time, which he fixed as six months. Allowing for six months' rent, and certain costs of removal, the trial judge arrived at damages of £338. The Court of Appeal increased the damages to £670, arrived at on the following principles. The basic principle was that the plaintiff was entitled to an equivalent for the rent which

would have been paid over the next six years. From this should be deducted the probable cost of maintenance, and also a further sum to reflect the fact that the plaintiff was receiving the whole amount at once, instead of in instalments over six years. Again, something must be deducted for the depreciation which the installation would have suffered in the remaining six years.

Inland Revenue Audit

In a leading article in our issue of December 15th, 1956, we discussed the report of the Comptroller and Auditor-General on the Inland Revenue appropriation accounts for 1955-56, in which special attention was paid to income tax evasion and to the cash basis of computing profits. This report had an echo in the minutes of evidence, now published, of the Committee of Public Accounts for 1956-57.¹

Sir Henry Hancock, chairman of the Board of Inland Revenue, told the Committee of one instance of remission of tax where the case started in 1936 and was not settled until a decision of the High Court was obtained in 1948. By that time the taxpayer was virtually bankrupt and £50,000 was taken in settlement, a balance of some £322,000 being written off. When giving evidence of the back duty drive, Sir Henry was asked whether the Inland Revenue were as zealous in seeing there was no undue delay in dealing with repayment claims. He said they were; foreign visitors were always very impressed by the way in which claims refunds were handled.

On the cash basis, Sir Henry said they were satisfied that they could not insist on the earnings basis for professional people, except in the first three years. In the accountancy profession, where one would expect the greatest regard for the more elaborate and more developed forms of account presentation there were still a number of cash basis cases. He disagreed with the view of Sir Frank Tribe that the inability of barristers (who are always assessed on the cash basis) to insist on their fees was a mere legal fiction. The inability was confirmed by the Inland Revenue's legal advisers (themselves barristers).

Estate Duty and Agriculture

Addressing the jubilee meeting of the Country Landowners' Association recently, its president, the Earl of Bradford, said they all welcomed the Government's farm improvement scheme. However, at the same time that this imaginative measure was being put on the Statute Book they heard of millions of £s which the Dukes of Bedford, Devonshire and Westminster had to find to meet the State's death duty demands. Three of the greatest estates in the land were being largely destroyed to keep the machinery of Government ticking over for a few hours. Efficient organizations which had taken centuries

¹ H.M.S.O. £1.10s.net.

to build up were being torn asunder. Death duties on agricultural land were, he thought, the greatest curse on the system of land tenure and on agriculture as a whole. Though more spectacular in their effects on the big estates, they were just as damaging, in proportion, to the smaller estates, particularly to owner-occupiers. The business of a successful farmer could be crippled by estate duty, particularly if he owned his own land. To give back part of that which death duties took was merely a palliative for a system which could not endure.

Contracts Offending Foreign Law not Enforceable

It is a settled principle of English law that the Courts here will not, at the suit of a foreign state, enforce the revenue or penal laws of that state. It does not follow from this, however, that the English Courts will enforce a foreign contract which is contrary to the laws of a foreign state (*Reggazoni v. K. C. Sethia (1944) Ltd*, *The Times*, October 22nd, 1957).

The plaintiff, resident in Switzerland, sued for damages for breach of a contract to supply him with jute sacks for resale in South Africa, the sacks to be brought from India. At the time, the export of jute from India to South Africa was forbidden by Indian law under severe penalties, as both parties well knew. The House of Lords confirmed the decision of the Courts below that the contract was not enforceable,

since it was contrary to public policy and the comity of nations to enforce a contract which violated the law of another country. Different considerations might arise if the contract was English and could be performed in some country other than the one whose law made the act illegal. The doctrine that the English Courts would not enforce the revenue laws of another country was an entirely separate and distinct matter. The suggestion was made by the plaintiff that the law in question was enacted as part of India's dispute with South Africa, but the House held that the law, nevertheless, did not offend against morals. If it had done so, an exception might have been made in the plaintiff's favour.

Friendly Societies and Rating

The Independent Order of Oddfellows Manchester Unity Friendly Society has failed in its attempt to obtain rating relief under Section 8 (1) (a) of the Rating and Valuation (Miscellaneous Provisions) Act, 1955, the Manchester Corporation having successfully appealed against a quarter-sessions decision that the main object of the Society was the advancement of 'social welfare'. The Divisional Court, applying the decision in *National Deposit Friendly Society Trustees v. Skegness U.D.C.* ([1957] 1 Q.B. 531), held that the main object was the carrying into effect of a business arrangement in the form of mutual insurance (*The Times*, October 17th, 1957).

Finance and Commerce

Economic and political uncertainties continue to depress the stock-markets on both sides of the Atlantic and while 'slump talk' both in New York and London may be exaggerated, there appears evidence enough of a slowing of the industrial momentum in the United States and of a very definite reduction in the level of industrial company earnings here. Recent warnings of the effect of higher costs on profit margins are now being translated into terms of reduced industrial equity dividends. Under such circumstances the fresh round of wage demands is causing growing concern not only here but also overseas, where full confidence in sterling is not yet restored.

Rubber Improvement

An excellent idea comes with the report and accounts of Rubber Improvement Ltd for the year to May 31st, 1957, which provides this week's reprint. In September last, an offer was made for the ordinary capital of Hay & Robertson Ltd, a supplier to the Rubber Improvement Group of textiles used in making fire-resistant conveyor belting. The offer was subject to 90 per cent acceptance and became unconditional.

With the Rubber Improvement accounts has been included the Exchange Telegraph card for Hay & Robertson which provides shareholders with a complete summary of the history and position of the new

acquisition. The card gives a view of Hay & Robertson profits and their application back to 1948, earnings and dividend percentages on the ordinary capital, the priority percentages for the last three years, balance sheets for the last two years, highest and lowest prices for the ordinary shares back to 1948, and an extract from the last chairman's statement.

Recent years have seen a spate of take-over bids carried out by company boards, no doubt with the best intentions but often with little regard for shareholders who want to know something about the new business that has been brought in. The card which the Exchange Telegraph has available for all quoted companies is one way of filling the need. Incidentally, this matter of giving information on take-over acquisitions has recently been the subject of action by the Council of the London Stock Exchange.

'Profound Shock'

Mr John Lewis, the chairman of Rubber Improvement, has the unfortunate duty of reporting that a previous acquisition - Wood, Rozelaar & Wilkes Ltd, a printing business - did not turn out too well. He refers to his statement last year when he said that 'quite categorically this company was on a sound profit-making basis'. He made this statement 'because for the two years ending March 31st, 1956, this com-

pany's audited accounts showed net profits totalling £78,043 and the then chairman, in his statement to shareholders at the annual general meeting held on July 27th, 1956, stated as follows: 'I must on your behalf express thanks to every member of the organization for the continued improvement which is shown in our financial accounts and, from the results available since the end of the financial year, it would appear that the successful trading we have already shown is continuing at no less a rate than in the previous two years.'

Immediately after the acquisition, Mr Lewis continues, the auditors of Wood, Rozelaar were instructed to prepare certified accounts for the half-year to September 30th, 1956, and on receipt of the accounts dated November 28th, there was, instead of a profit as anticipated, a loss of £3,729, which came as a 'profound shock'. Changes on the Wood board followed and the printing business has been restored to a profit-making basis following a 'drastic re-organization'.

Widespread Interests

With the Rubber Improvement report and accounts is a forty-page descriptive and pictorial booklet to show shareholders the constitution and various businesses of the group which in recent years has been expanded by the acquisition of other companies. For the mining and allied industries, there is a range of products from conveyor-belt to pit-head bath sandals. Other products include P.V.C. sheeting, glass-fibre roofing, rubber and plastic mouldings. Through British Mouldex, the group is in the Vinyl plastic floor covering business, through Rilex Shoes in footwear, through Baxter's Leather in 'Everything for shoemaking', and in printing, through Wood, Rozelaar. In brief, a group of widespread interests.

In one respect, we found the accounts a little difficult: the comparison, in black on a light green background, is away to the left of the narrative. Reference from the latest to the previous year's figures, therefore, is not as easy as it might be. Less space between narrative and latest figures with the comparison on the extreme right would probably be an improvement.

All Change

Currency problems in accounts fade into insignificance when compared with the problems faced by Calcutta tram conductors with the introduction by India of a decimal coinage. Mr D. E. Webb, chairman of the Calcutta Tramways Co Ltd, tells how last April the Indian coinage was converted to decimals with 100 naya paise to the rupee, when previously the rupee equalled 64 pice, with naya paise and old pice both legal tender for the next five years.

Few tram fares could be converted exactly into the new currency. It was necessary to decide whether fractions should be decided up or down. They were unable to reach agreement with the Government on the question and the matter has been referred to an

independent tribunal to decide on the conversion table.

For the meantime, an interim basis has been worked out. But what a problem for the tram conductors when offered old pice for a naya paise fare and having to calculate what change to give, if any, and in what currency.

Fortunately, co-operation and goodwill have dealt with a situation that, says Mr Webb, might well have led to ill-feeling with the public.

Money Market

For the sixth successive week the market syndicate's Treasury bill bid was held at £98 7s, and the average discount rate was little changed at £6 12s 0.74d per cent. Applications for the £260 million of bills offered and allotted totalled £431,100,000. This week's offer is £40 million of 63-day and £220 million of 91-day bills.

RUBBER IMPROVEMENT LIMITED

NOTES ON CONSOLIDATED BALANCE SHEET as at 31st May, 1957

1. MOVEMENT OF ISSUED SHARE CAPITAL DURING THE YEAR		Ordinary	"A"
		£	£
Balance, 1st June, 1956, 5/- shares	187,500	46,875	
Issued to Vendors of:—			
Baxter's Leather Company Limited		8,109	
Wood, Rozelaar & Wilkes Limited		12,500	
	187,500	67,484	
Amount capitalised in paying up 1/- per share from:—			
Share Premium Account	22,812		
Profit and Loss Account	28,184		
	£50,996	37,500	13,496
Balance, 31st May, 1957, sub-divided into 2/- shares	£225,000	£80,980	
2. MOVEMENT OF CAPITAL RESERVES			
(a) Share Premium Account			
Balance, 1st June, 1956		22,812	
Premium received on 82,435 "A" Ordinary 5/- shares issued		258,242	
		281,054	
Less Amount capitalised		22,812	
Balance, 31st May, 1957		£258,242	
(b) Capital Reserve Account			
Balance as at 1st June, 1956		1,492	
Excess over cost of Book Value of net tangible assets of Subsidiaries acquired during year		198,530	
Pre-acquisition Profit, less pre-acquisition Loss, of Subsidiaries acquired during year		9,278	
Balance, 31st May, 1957		£209,300	
3. The Profit and Loss Account for the year to 31st May, 1957, includes the trading results of two Subsidiary Companies acquired during the year.			
4. FIXED ASSETS.			
(a) Freehold Land and Buildings of a Subsidiary Company have been revalued as at 31st May, 1957.			
(b) The Fixed Assets of one Subsidiary Company have been included at net book values.			
5. There are arrears of Cumulative Preference Dividend due to Shareholders of a Subsidiary Company for the period to 31st March, 1956, amounting to £21,000 (gross). Rubber Improvement Limited has guaranteed the dividend for the year to 31st March, 1957, which it has paid, and those for the years to 31st March, 1958 and 31st March, 1959.			
6. Outstanding Capital Commitments amount to approximately £46,200 (1956—£176,000)			

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MAY, 1957

	1956	£	1955	£
Directors' Remuneration.				
Salaries and Commissions ..	35,646	48,376		
Pensions to former Directors ..	—	3,591		
Compensation for loss of Office ..	2,000	2,000		
Fees ..	2,000	2,150		
	<u>35,646</u>	<u>56,017</u>		
Auditors' Remuneration				
Bank and other interest charges ..	2,091	3,414		
Hire Purchase Interest ..	5,317	16,482		
Provision for Depreciation.				
Freehold Land and Buildings ..	4,714	7,561		
Leasehold Premises ..	217	64		
Plant and Machinery ..	41,760	82,472		
Furniture and Fittings ..	2,151	4,080		
Motor Vehicles ..	7,402	10,707		
	<u>56,244</u>	<u>104,884</u>		
Taxation based on profits of the year.				
Income Tax ..	322,618	192,415		
Loss amounts recovered and provisions no longer required ..	—	859		
	<u>89,000</u>	<u>191,556</u>		
Profits Tax ..		<u>88,000</u>		
	<u>411,618</u>	<u>279,556</u>		
Balances Carried Down.				
Parent Company ..	400,230	243,583		
Subsidiary Companies ..	2,259	53,479		
	<u>402,529</u>	<u>297,062</u>		
	<u>£918,487</u>	<u>£764,671</u>		
APPROPRIATIONS.				
Commutation of Royalties Payable ..	16,324	—		
Premises demolished ..	585	—		
Plant and Machinery scrapped ..	3,335	—		
Expenses on Increase of Share Capital ..	2,735	—		
Goodwill ..	80,296	—		
Reserve on Investment in Subsidiary Company ..	365	—		
Company acquisition and Capital Issue expenses ..	—	6,698		
Reserve against Dividend of Subsidiary Company paid by Parent ..	—	3,450		
Company under Guarantee (see Note 5)* ..	—	28,184		
Amount capitalised (see Note 1)* ..	—	—		
	<u>104,000</u>	<u>38,332</u>		
DIVIDENDS (less Income Tax)				
5% Cumulative First Preference Shares for the year to 31st December, 1956 ..	5,031	5,031		
7% Cumulative Second Preference Shares for the year to 31st December, 1956 ..	6,037	6,038		
Ordinary and "A" Ordinary Shares—				
Interim of 30% (paid) ..	—	52,782		
Final of 50% (proposed) ..	—	87,969		
	<u>131,420</u>	<u>140,751</u>		
	<u>142,488</u>	<u>151,820</u>		
SUBSIDIARY COMPANIES.				
Losses on Sale of Fixed Assets ..	53	1,068		
Proportion of Net Profit for year to date attributable to outside Shareholders ..	286	346		
Transfer to Reserve ..	1,960	—		
Pre-acquisition Profits, less pre-acquisition Losses, transferred to Capital Reserve Account (see Note 2b)* ..	—	9,278		
	<u>2,299</u>	<u>10,692</u>		
BALANCES CARRIED FORWARD.				
Parent Company ..	167,635	222,864		
Subsidiary Companies (see Note 5)* ..	—	42,767		
	<u>167,635</u>	<u>265,651</u>		
	<u>£416,422</u>	<u>£466,495</u>		

* Reproduced on page 515.—Editor.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'The Cheques Act, 1957'

SIR, - I have read with interest Mr Spencer Maurice's article under the above heading in the October 19th issue of *The Accountant*.

With regard to the paragraph 'Receipts as evidence' Mr Maurice states that an obvious example is a receipt needed to support a claim for maintenance, including maintenance of agricultural land and buildings under Schedule A, but does he seriously suggest that a builder's account, supported by a paid cheque, would not be admitted by an Inspector of Taxes? There is, as you no doubt know, no statutory authority for the demanding of receipted bills. It is a very convenient practice, but, as I have said, the Inspector has no statutory authority. When making a maintenance claim under Schedule A the taxpayer is obliged to sign, under a penalty if mis-statements are made, a declaration as laid down by the Act. The Inspector's duty is to be satisfied as to the correctness of the declaration. If he is so satisfied he must make repayment - (Income Tax Act, 1952, Section 101, subsection (6)).

I should be interested in having Mr Maurice's comments on this aspect of the matter.

Yours faithfully,
F. A. MATTHEWS.

Cheam, Surrey.

[Mr Spencer G. Maurice writes: In suggesting that it was still desirable to obtain receipts in due form to support maintenance claims, I did not intend to suggest that the Inspector could demand such receipts from the taxpayer. But the established practice of submitting receipts with claims is well known and there seems to be no reason to suppose that it will be altered simply by reason of the Cheques Act. At all events it is clear that in certain circumstances the taxpayer might find himself put to strict proof of his claims and the advantage of receipts in such a case can hardly be denied.]

Integration in extenso

SIR, - Now that the integration of The Society of Incorporated Accountants with the Chartered Institutes is almost complete, the profession is no doubt wondering how soon it will be before The Association of Certified and Corporate Accountants is integrated, and what form such integration will take.

Accepting as equal the high standard of examination qualification, it is now most clear that the differentiation is between the practising side of the profession and those accountants who were trained or are employed in commerce or industry. May I therefore suggest a simple procedure which should take place as soon as possible after the present scheme is finalized, and while the profession as a whole is still integration minded; that is, for the Institutes, as

newly-constituted, to offer membership to those members of the Association who are in public practice or are employed in public practice, and have been so, for a minimum period of five years. Time for application for such membership could also be restricted to a maximum similar period.

This method could rapidly and smoothly ensure a position whereby the qualified accountant having sufficient experience for public practice, would become 'Chartered', and the public would similarly soon recognize this singularity of title of the practising accountant.

Yours faithfully,
G. D. LEIGH, F.A.C.C.A.
London, W1.

Bonus Issues and Surtax Directions

SIR, - The article 'Gross Relevant Distributions', by Mr T. J. Sophian, which appeared in the issue dated September 14th, is obviously of considerable interest to practitioners acting as accountants or auditors to companies which have incurred, and are continuing to incur, substantial profits tax liabilities, as it would appear that in appropriate cases a bonus issue of shares could be made followed by the subsequent reconstruction of the company by means of forming a new company to take over the business and the liquidation of the existing company. By this method it would appear that the liquidator could distribute cash up to the limit of the issued share capital, as increased by the bonus issue, without a distribution charge being incurred on the amount distributed.

Furthermore, it would seem that as surtax directions can be made for a period of six years it would be advisable to obtain a surtax clearance prior to issuing the bonus shares, as otherwise, if a reconstruction scheme were carried through on the lines suggested, it is probable that a surtax direction would be made in respect of the preceding six years.

Again, if a surtax clearance were obtained and if a bonus issue was subsequently made, followed by a reconstruction mainly for the purpose of being able to make a distribution of cash without incurring a distribution charge in respect thereof, surely the new company would be likely to incur surtax directions unless a very substantial part of its profits were distributed.

It would be interesting to have the views of other readers on these points.

Yours faithfully,
E. C. BURRELL, A.S.A.A.
London, EC2.

Dispensing with Receipts

SIR, - May I write in support of Mr H. F. Joyce (September 25th issue) and Mr O. C. I. Spicer (October 5th issue), and attempt to console Mr

C. H. R. Fancote (October 19th issue) on the subject of receipts?

Though dealing with smaller numbers than Mr Fancote, I can say that 5 per cent of our customers have sent us circulars to date. However, we took the initiative in this matter by sending a circular to customers with our September statements telling them that we should not issue receipts in future unless specifically requested. We provided a form to make it easy for anyone to advise us that receipts were still required. Only 3 per cent have made such a request.

Since the Act came into operation we have issued only one receipt (apart from receipts for cash). I am certain we must watch the operation of the Act and the practice of dispensing with receipts, rather than the issue of circulars. Even so I have found the number of circulars most encouraging (especially as my collection includes two nationalized concerns). Let us never forget that the majority will always wait to see what others are doing!

It was perhaps unfortunate that no official pronouncements were made earlier. The London Clearing Bankers' Committee did not issue their circular until September 23rd and the recommendations of our professional bodies were not made until October.

I have much sympathy with the accountant in practice who has to work from incomplete records. But it would be most regrettable if the profession impeded in any way the growing tendency to dispense with receipts. There has been much misunderstanding in the commercial world and no little confusion between a simple receipt and a receipted voucher. It is the system of making payments to which auditors should direct their attention, rather than the obtaining of simple receipts which in themselves are of no evidential value.

The statement of the Scottish Institute is most realistic when it says

'The auditor must, however, face the fact that the practice of not demanding such receipts is already established to some extent and is likely to grow: as against the additional work which may be caused him, there must be set the economies which the commercial community can secure.'

Yours faithfully,

F. J. BARRELL,

Chief Accountant,

Croydon, Surrey. MUNDET CORK PRODUCTS LTD.

Training for the Profession

SIR, -

*'Two Voices are there; one is of the sea,
One of the mountains ...'*

Mr H. O. H. Coulson has done me the honour of taking issue with me on this subject, and that in no uncertain terms (October 19th issue). Re-reading the correspondence upon training for the profession, and the earlier series on integration, which contained several comments on the system of articles, it strikes

me that there is only one point upon which all accountants would agree, namely, the necessity for practical training in an accountant's office during the period prior to qualification. The division occurs at this point, into those who are satisfied with the existing arrangements and those who can hear the structure cracking.

I cannot see that Mr Coulson's proposals for a further extension of articles for two years or more (September 28th issue) will receive any support. Indeed, there will be many like myself who would be prepared to take up the cudgels on behalf of future generations of accountants in order to prevent a further lowering of the profession's already depressed level.

My own intervention into this debate has been prompted by memories of my own articles, still fairly fresh in my mind. On the one hand, I remember the many capable and courageous fellow-students who failed examinations, some of them on several occasions, ultimately to pass after many bitter disappointments. Frankly, I do not consider that any examination should be taken by those who are likely to fail, and this leads to my second point, that only a true educational system can evaluate a student's preparedness to sit for an examination.

The subject is far from being academic. Those who have practised abroad will have felt the urgency with which accountancy professions are being modernized in one country after another. States are realizing the important part which accountants can play in their plans for power or prosperity. It would be tragic if, after having led the field for so many years, British accountancy should find itself in the wake of technical progress.

Yours faithfully,

London, SW10.

KENNETH S. MOST.

A Link with the Past

SIR, - I happened to be looking at the 'Deaths' column of *The Daily Telegraph* for October 17th, 1957, and I noticed therein:

'Isabel Nichols, aged 90, the surviving daughter of the late Charles Lee Nichols, C.B.E.'

The latter, presumably, is the former senior partner of Chatteris, Nichols & Co, afterwards, in these days of amalgamations, Kemp, Chatteris, Nichols, Sendell & Co - now, the shortened name of Kemp, Chatteris & Co.

Anyhow, Charles Lee Nichols was an original member of the Institute - May 11th, 1880 (in fact, November 29th, 1870 - a Fellow of the old Institute of Accountants).

If I remember rightly, he was a member of the Council, but he does not appear as such in the 1901 book, which is the first one which contains my own name as a member of the Institute, nor was he an original member of the Council.

Yours faithfully,

Newport, Mon.

C. GORDON JOLLIFFE.

Taxation Cases

A full report of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Boston Deep Sea Fishing and Ice Co Ltd v. Farnham

In the High Court of Justice (Chancery Division) –
July 31st, 1957

(Before Mr Justice HARMAN)

Income tax – Trade – French trawler business – Trawler in United Kingdom at fall of France – United Kingdom company agent of French company – Trawler controlled during war by that company – Whether that company assessable as agent – Income Tax Act, 1918, Schedule D, Charging Rule 1 (a) (3), General Rules 5, 10 – Finance Act, 1925, Section 17 – Trading with the Enemy Act, 1939, Section 1.

A trawler was owned by a company with its commercial domicile in France, and the appellant company acted as agent for the trawler when it was in the United Kingdom. At the fall of France the trawler was in a United Kingdom port, and the managing director of the appellant company caused the vessel to be immobilized to prevent her falling into the hands of the enemy. The skipper and two of the crew were repatriated to France, but the rest stayed in England. During the war the trawler was controlled by the appellant company and by the Fisheries Section of the French Naval Forces, and she operated from United Kingdom ports. The appellant was never formally appointed the manager of the vessel. In making various applications under the controls then in force the appellant company held itself out as being the manager of the vessel and as acting with the authority of the French company, but in fact the appellant company never had such authority. The appellant company kept accounts of the ship's takings and expenses and after deducting its commission a profit was shown. At the end of 1945 the trawler returned to France under the control of the French company, which approved the conduct of the appellant company during the war.

Assessments under Case I of Schedule D were made on the appellant company for 1940-41 to 1944-45 on the footing that it was the agent of the French company. The Special Commissioners found that the activities of the trade of the trawler were not carried on by the French company as a principal, and that the activities were carried on by the appellant company. They also decided that the appellant company was an authorized person carrying on the regular agency of the French company, and that it was not a broker or general commission agent within Rule 10 of the General Rules in the Income Tax Act, 1918, as amended by Section 17 of the Finance Act, 1925.

Held, that, as the French company was an alien enemy during the relevant period, the appellant com-

pany could not lawfully act as its agent, and that the assessment should be discharged.

Ramsden v. C.I.R.

In the High Court of Justice (Chancery Division) –
July 31st, 1957

(Before Mr Justice HARMAN)

Income tax – Running account with company – Whether any repayment of a loan – No shares or directorship in company – Whether power to enjoy income of company – Increase in value of assets – Income Tax Act, 1945, Section 412.

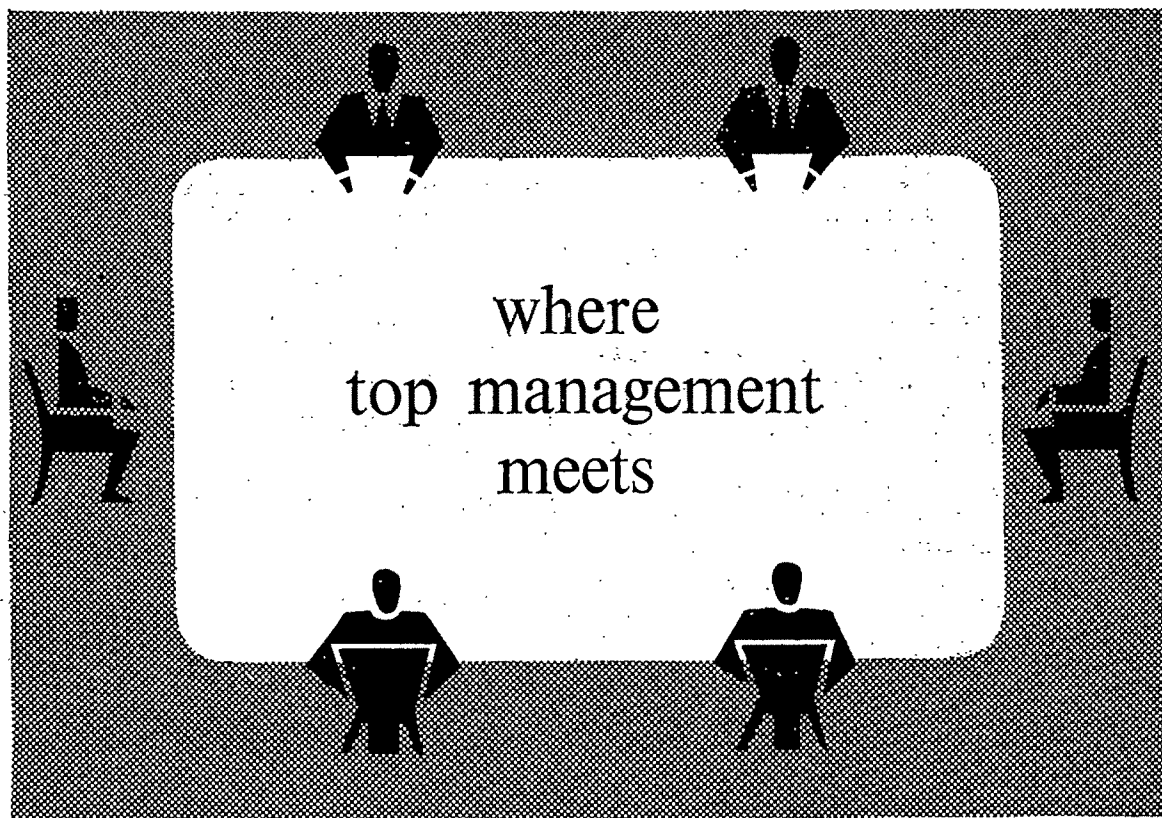
During the relevant period the appellant was ordinarily resident in the United Kingdom. In 1939 and 1947 he transferred assets to a Kenya company and the income of the transferred assets became payable to that company. The appellant did not at the relevant time hold any shares in the company nor was he a director. He had an account with the company, and at the beginning of the relevant period the balance due to the appellant was shown as follows:

- (1) Subscribed in anticipation of share allotment, £4,998 0s 0d.
- (2) Balance of consideration under vending agreement, £118,857 3s 3d.

Later the first of these items was described as 'Subscription for shares', and the second item as being an open account. Various sums paid by the appellant on the company's behalf were credited to his account, and there were debits for rent and, in later years, for sums of cash towards repayment of the debt. The balance on the second item in the account fluctuated considerably; but the balance on the first item remained constant, as a sum paid in advance for an allotment of shares that was never made. In a particular year the company received a dividend of £8,898 8s 4d, and as a result the company's income exceeded its expenditure by £7,463 6s 6d.

The Special Commissioners decided that the appellant's account with the company was a loan account, and that therefore, as the appellant was a person entitled to repayment of his loan, the case was within Section 412 (2) of the Income Tax Act, 1952.

Held, (1) that the account was not a loan account, and that therefore the case was not within Section 412 (2); (2) that the appellant's right to recover his debt was an asset held by him, and that the value of the asset was increased in the year in question by the increase in the company's resources; (3) that therefore the case was within Section 412 (1) of the Act.



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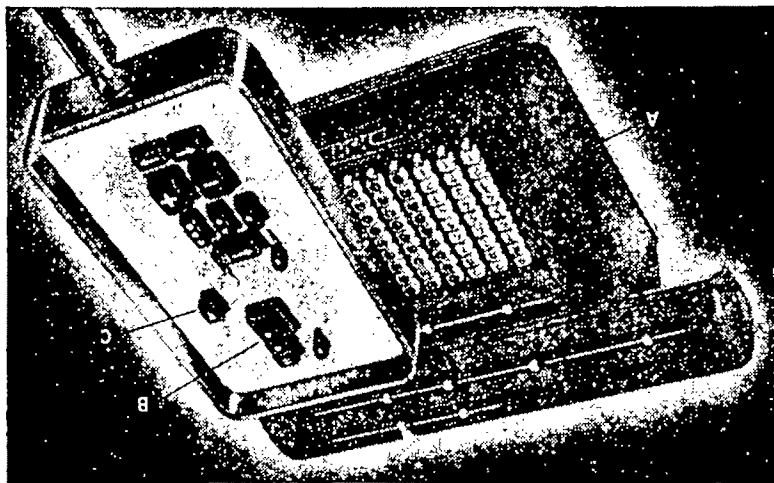
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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

TAXATION AND RESEARCH COMMITTEE

The ninety-third meeting of the Taxation and Research Committee was held at the Institute on Thursday, October 17th, 1957, at 2 p.m.

Present: Mr S. Dixon (in the chair); Messrs C. W. Aston, T. Fleming Birch, J. Cartner, L. H. Clark, J. B. L. Clark, C.B.E., H. O. H. Coulson, S. M. Duncan, A. R. English, F. J. Eves, E. S. Foden, G. G. G. Goult, C. R. P. Goodwin, N. B. Hart, O.B.E., T.D., W. S. Hayes, G. N. Hunter, J. A. B. Keeling, D.F.C., H. Kirton, S. Kitchen, E. N. Macdonald, D.F.C., R. P. Matthews, G. P. Morgan-Jones, F. S. Mowforth, L. Pells, A. H. Proud, A. Rayner, D. W. Robertson, A. E. Spicer, D. E. T. Tanfield, A. G. Thomas, L. W. Underwood, J. W. Walkden, F. J. Weeks, E. K. Wright and G. H. Yarnell, with the Secretary.

Address by the President of the Institute

The President of the Institute, Mr W. H. Lawson, C.B.E., B.A., attended the opening of the meeting. In reply to a speech of welcome by the Chairman, the President said:

Each year the President of the Institute has the privilege of saying a few words in order to open the first meeting of the Taxation and Research Committee's new year of office. For me this is a special pleasure because I have myself been through all the stages through which your documents pass. I had several happy years as a member of the Taxation and Research Committee. I then had a run as chairman of the Parliamentary and Law Committee which handles (or, as you may sometimes think, mishandles) the documents emanating from your committee. And now, as President, I have to preside at Council meetings when a document which has emanated from your committee and has been through the Parliamentary and Law Committee is finally brought to the Council for consideration. I do, therefore, know something of the joys and sorrows throughout the whole proceedings.

A New Experience

A new experience is about to fall upon the Taxation and Research Committee. Hitherto your membership has always included a number of members of the Council. Indeed, when the committee was founded in 1942, its constitution was so devised as to ensure that this would be so. This year, however, you are starting your deliberations without Council members among you.

There are really three reasons for this change. One reason is that the Council considers that it is unfair to impose upon one individual the double burden of Council work and Taxation and Research Committee work. The fact that this double burden has been borne by a considerable number of individual members of the Institute is a tribute to their sense of service and devotion to the Institute but it does not make it a good thing.

Another reason is that one of the objects in setting up the Taxation and Research Committee was to obtain, for the benefit of the Council, the experience of a wide range of members. Inevitably the available field is cut down whenever a member is serving on both the Council and the Taxation and Research Committee.

A third reason is that the Taxation and Research Committee really ought now to be treated as having grown up. It should be able to proceed about its business without father being present at all its deliberations. As the com-

mittee is only just entering its sixteenth year this is perhaps rather an early school-leaving age but still the Council considers that it is all right.

In this connection you must bear in mind that when the committee was formed fifteen years ago the whole conception of such a committee was unprecedented. The Council had hitherto confined itself to matters largely outside the technical field of the profession. Obviously, therefore, the Council had to tread warily in taking this double step of not only embarking upon the technical field but also of creating a full-scale committee of practising and non-practising members of the Institute to assist and advise the Council.

The Committee's Invaluable Help

The experiment was successful however, and no one could now doubt the wisdom of the step then taken. What the Council, with the invaluable help of the Taxation and Research Committee, has been able to achieve during the last fifteen years in the way of technical publications and taxation memoranda has placed the Institute in a position in which it need not fear comparison with any other accountancy body either in the United Kingdom or overseas.

It so happens that during the past year or two there has been such tremendous activity at Moorgate Place (including in particular the integration scheme) that progress on some technical subjects has been delayed. Slow progress has also been occasioned in some instances by the inherent difficulty of the subject-matter. The result is that we now have something in the nature of a small stock-pile which has emanated from your committee and will, I hope, come to fruition through the Parliamentary and Law Committee and the Council for the benefit of members of the Institute during the next year or two.

You must not expect (and I am sure you do not expect) that the Parliamentary and Law Committee will always agree with everything in a document you submit to it or indeed sometimes with the main principles on which it is based. Sometimes there are major differences leading eventually to the settlement by the Council of a document in considerably different terms from that originally submitted by your committee or in no document being issued. When this happens you can perhaps take some comfort by likening yourselves to a Royal Commission which spends some years in carefully examining a subject remitted to it, only to find that the Government of the day either fails to take any action on the subject at all or takes action which is not in accordance with the recommendations of the Royal Commission. This is just one of the joys of democracy.

Welcome to New Members

Your committee is starting its sixteenth year with an unusually large number of new members, nine in all. This is in part due to the withdrawal of Council members. I extend a hearty welcome to those of the new members who are present today. They will not find that membership of the Taxation and Research Committee involves much limelight, but they will, I am sure, find it stimulating, instructive and enjoyable to take part in the committee's deliberations. I would like them to know that although the committee's membership is more or less evenly divided between practising members and those in industry and commerce we do not, at Moorgate Place, think in terms of a division of membership. We think in terms of members

of the Institute. Yours is a committee of members working in harmony and I hope it will always so remain.

I want on behalf of the Council to express our appreciation of all that Mr Morgan-Jones, as your Chairman, has done in an exceptionally difficult year. I wish his successor, Mr Dixon, and you all, every success in your deliberations during the ensuing year.

Mr Gerald Percy Morgan-Jones

A hearty vote of thanks was accorded to Mr G. P. Morgan-Jones for his services as Chairman of the Committee during the year 1956-57.

Membership

It was agreed that letters of appreciation for their services be sent to the following who have retired from membership of the Committee: Mr A. H. Cheney (1953-57); Mr D. A. Clarke (1949-57); Mr J. Clayton (1946-57); Mr W. G. Densem (1950-57); Mr P. D. Irons (1955-57); Mr J. H. Mann (1950-57); Mr W. E. Parker (1954-57); Mr E. F. G. Whinney (1953-57).

The Chairman extended a warm welcome to the following new members of the Committee: Mr L. H. Clark, *Council nominee*, Mr H. O. H. Coulson, *Council nominee*, Mr C. R. P. Goodwin, *South Eastern*, Mr J. A. B. Keeling, *London*, Mr R. P. Matthews, *London*, Mr C. F. Millard, *Manchester*, Mr D. W. Robertson,

Council nominee, Mr H. Eden Smith, *co-opted*, Mr A. E. Spicer, *Council nominee*.

Standing Sub-Committees

Reports were received from the following Standing Sub-Committees:

General Advisory Sub-Committee.
Management Accounting Sub-Committee.
Taxation Sub-Committee.
Planning Sub-Committee.

Ad hoc Sub-Committees

Progress reports on the work of four special sub-committees were received and two new special sub-committees were appointed.

Future Meetings

The next meeting of the Committee was arranged for Thursday, December 19th, 1957, at 2 p.m., and the following dates were provisionally fixed for meetings in 1958:

Thursday, February 20th, 1958.
" April 17th, 1958.
" June 19th, 1958.
" September 18th, 1958.
" October 16th, 1958.
" December 18th, 1958.

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTORY INSTRUMENTS

The National Insurance (Contributions) Amendment Regulations, 1957

(S.I. 1957, No. 1299)

These Regulations contain miscellaneous amendments to the National Insurance (Contributions) Regulations, 1948.

Price 5d net. August 5th, 1957.

The National Insurance (Residence and Persons Abroad) Amendment Regulations, 1957

(S.I. 1957, No. 1300)

These Regulations amend the National Insurance (Residence and Persons Abroad) Regulations, 1948, by permitting a person who is excepted from liability to pay a contribution through absence from Great Britain to be credited with a contribution if he satisfies the appropriate provisions of the National Insurance (Contributions) Regulations, 1948.

Price 3d net. August 5th, 1957.

The National Insurance (Increase of Benefit and Miscellaneous Provisions) Amendment Provisional Regulations, 1957

(S.I. 1957, No. 1301)

These Provisional Regulations amend the National Insurance (Increase of Benefit and Miscellaneous Provisions) Regulations, 1955. Under Section 2 (1) of the National Insurance Act, 1957, a widow who immedi-

ately before attaining pensionable age is entitled to widow's benefit no longer becomes entitled to a retirement pension by virtue of her husband's insurance, but is allowed for certain periods to elect to have account taken of her husband's contributions in calculating her yearly average for the purpose of her right to a retirement pension by virtue of her own insurance. A widow resident abroad when benefit rates were increased in 1951, 1952 or 1955 is under the existing regulations precluded from obtaining by virtue of her husband's insurance the increased rate of retirement pension then enacted unless she subsequently becomes resident in Great Britain. The present Regulations apply this provision to a retirement pension payable under Section 2 (1) by virtue of taking account of her husband's contributions.

Price 3d net.

August 5th, 1957.

The National Insurance (Widow's Benefit and Retirement Pensions) Amendment Regulations, 1957

(S.I. 1957, No. 1309)

These Regulations, which amend the National Insurance (Widow's Benefit and Retirement Pensions) Regulations, 1948, provide that persons in receipt of retirement pensions, with certain exceptions, may elect to give up their pensions and re-enter regular employment. If they do this they pay contributions, and thereby may earn the right to an increased pension when they again retire.

Price 4d net.

August 5th, 1957.

CHARTERED ACCOUNTANTS' DINNER IN BRADFORD

Leeds, Bradford and District Society

A distinguished company attended the annual dinner of the Leeds, Bradford and District Society of Chartered Accountants held on October 24th, at *The Midland Hotel*, Bradford.

Members and guests were welcomed by Mr David Steele, F.C.A., President of the Leeds, Bradford and District Society, and by Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of The Institute of Chartered Accountants in England and Wales.

All the speeches were marked by the quality of their humour, and after the loyal toast had been proposed by Mr Steele, Colonel Sir Malcolm Stoddart-Scott, O.B.E., T.D., M.D., Member of Parliament for Wigan, proposed the toast of 'The Institute of Chartered Accountants in England and Wales'.

Sir Malcolm began by saying that, after the Chancellor of the Exchequer, the Financial Secretary to the Treasury, the Economic Secretary to the Treasury and the Postmaster-General (because he was once an accountant) had all been unable to attend the dinner, he got a letter saying 'Do it yourself' (*laughter*), and he added wryly: 'It is always as well to listen to the advice of your accountant'.

'Heads and Tails'

Sir Malcolm said that the accountancy profession grew in importance year by year - one could almost say Finance Bill by Finance Bill.

It was correct to say that no profession got more attention from Parliament than the accountancy profession. Night after night every hot summer, members sat in the Committee stage of the Finance Bill - sometimes all night until breakfast next morning. They tried to make heads and tails of clauses which had been prepared for them by the Treasury 'wise boys' who put them in only to confuse the accountancy profession. (*Laughter.*)

'We are told time and again that the accountants make the holes which we have to darn up. We are told we have to stop accountants driving their dead race-horses over imaginary fences. I think this is most inconsiderate of your profession. Those who dig holes should jolly well fill them up themselves', he said, amid laughter and applause.

He could understand a man going to his accountant and asking whether he could afford a new car, what sort of car and which of his fifteen accounts could best bear the cost, but it shook him as a gynaecologist when young people went to their accountants to ask whether it would be profitable and fruitful to marry. 'I am told the answer is always the same: "It is propitious if the wedding date is before April 1st".' (*Laughter.*)

In his reply to the toast, Mr Lawson mentioned that he himself came of Yorkshire stock, and he added, amid laughter:

'My ancestors went south presumably because they were unable to compete with Yorkshiremen.'

That is still a difficult thing to do, he went on, and he noted that five out of the six recipients of Certificates of Merit in the last Final examination of the Institute came from this district.

Referring to the subject of integration, Mr Lawson said the Council greatly appreciated the way in which the 'decision of the general body of members has been accepted by all'. He went on to comment on the need of attracting and training 'young people of the right calibre' as chartered accountants. Prospects in the profession today, he said, were better than ever.

Mr Lawson said there was a growing demand for advice and assistance in management accounting, cost accounting and office organization. He continued:

'Your district has been outstanding in promoting education in this field and I am delighted to know that you will be having further courses this year. These subjects are of vital importance to industry and commerce and, therefore, to our members whether in industry or practice.'

The toast of 'Our Guests' was proposed by Mr Steele, and Alderman Dr David Black, J.P., Lord Mayor of Bradford, responded.

The Company

Among those present were:

Messrs C. W. Boyce, C.B.E., F.C.A., E. Duncan Taylor, F.C.A., and Victor Walton, F.C.A. (*members of the Council of the Institute*); Messrs Stanley Ackroyd, (*President, Bradford Incorporated Law Society*); W. A. Armitage (*President, Leeds Incorporated Law Society*); J. M. S. Coates, O.B.E., F.C.A. (*President, Northern Society of Chartered Accountants*); R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*); D. L. Crow, A.S.A.A. (*President, Bradford and District Society of Incorporated Accountants*); F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*).

Mr W. W. Early, O.B.E. (*President, The British Wool Federation*); Dr E. G. Edwards (*Principal, College of Advanced Technology, Bradford*); Messrs Norman H. Fowler, F.R.I.B.A. (*President, West Yorkshire Society of Architects*); C. E. Johnson, F.R.I.C.S. (*President, Yorkshire Branch, The Royal Institution of Chartered Surveyors*); S. Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); Leslie E. Laycock, J.P. (*President, Leeds Incorporated Chamber of Commerce*).

Messrs R. D. Lea, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*); E. Luscott, B.A., F.C.I.B. (*Chairman, West Yorkshire Branch, Chartered Institute of Secretaries*); E. E. Mason (*President, Insurance Institute of Bradford*); C. F. Mazey (*President, Leeds Local Centre, Institute of Bankers*); C. H. W. Sansom, F.C.A. (*Hon. Secretary, North Yorkshire and South Durham Branch, Leeds, Bradford and District Society of Chartered Accountants*).

Messrs L. H. Sheppard (*Chairman, Bradford and District Centre, Institute of Bankers*); D. H. Smallwood, F.R.I.C.S., F.A.I. (*Chairman, Yorkshire Branch, Chartered Auctioneers' and Estate Agents' Institute*); S. Snowball, F.S.A.A. (*President, Incorporated Accountants' District Society of Yorkshire*); C. G. Sparrow, F.C.A., F.S.A.A. (*President, North Yorkshire and South Durham Branch, Leeds, Bradford and District Society of Chartered Accountants*); C. C. Taylor, J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); The Very Reverend J. G. Tiarks, M.A. (*Provost of Bradford*); Messrs Arthur E. Webb (*Editor, 'The Accountant'*); E. K. Wright, M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); A. E. Shaw, F.C.A. (*President, East Anglian Society of Chartered Accountants*).

NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' ANNUAL DINNER

The annual dinner of the Nottingham Chartered Accountant Students' Society was held at Daybrook House, Arnold, Nottingham, on October 23rd. The Vice-President of the Society, Mr T. R. Moore, A.C.A., was in the chair owing to the indisposition of the President, Mr E. R. Hill, F.C.A.

Among those present were Mr W. L. Miron, O.B.E., T.D., Deputy Chairman, East Midlands Division, National Coal Board; Mr P. Granger, F.C.A., member of the Council of the Institute; Professor W. J. H. Sprott, M.A., of the University of Nottingham; His Honour Judge R. S. Nicklin, and

Messrs R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*); N. B. Wallis, F.C.A., F.S.A.A. (*Vice-President, Incorporated Accountants' District Society of Nottingham, Derby and Lincoln*); J. S. F. Hill, F.C.A. (*Auditor, Nottingham Chartered Accountant Students' Society*); W. M. Allen, B.A. (*An Assistant Secretary of the Institute*); D. Cargill (*President, Nottingham Junior Chamber of Commerce*); P. Chapman (*Assistant Editor, 'The Accountant'*);

Messrs A. W. Dodds, B.Sc., A.R.I.C.S., A.A.I. (*Chairman, Royal Institution of Chartered Surveyors' Junior Organization*); J. Knighton (*Chairman, Chartered Auctioneers' and Estate Agents' Institute, Midland Counties Junior Section*); D. S. Walker (*Secretary, Nottingham Law Students' Society*); D. B. Shaw (*Sheffield Chartered Accountant Students' Society*); C. H. C. Edwards (*Birmingham Chartered Accountant Students' Society*).

Messrs P. R. Linnell (*Leicester and Northampton Chartered Accountant Students' Society*); L. C. McCracken (*London Chartered Accountant Students' Society*); W. M. Pearce (*Manchester Chartered Accountant Students' Society*) together with Messrs J. W. Carr, H. T. Sothorne, J. G. S. Abbott, P. Jenkin-Jones, D. S. Oxland, I. F. Powell, D. P. Potter and S. Paget, lecturers to the Society.

'Inestimable Value'

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Miron, who acknowledged the part played by the chartered accountant in the country's business and economic life. After quoting some of the vast sums of money appearing in National Coal Board statistics, he said:

'I want to say how much we owe to the work of chartered accountants in the service of the N.C.B. who help us in that tremendous enterprise to keep our accounts straight and clear.'

He added that the accountants were not only in the professional field. Three of six assistant area general managers in his division were accountants and others helped in organization and methods, and staff administration. These men were of inestimable value, said Mr Miron, and there was scope and opportunity for more to 'come into the ranks'. He continued:

'I do hope we shall see young men who have initiative and ingenuity in the field of accountancy who can help in the difficult problems ahead. We want the best advice; from no other source than your Institute can come that advice. Daily, the mining industry is developing new features in the world of accountancy. Budgetary control, standard costs, advice on capital expenditure are all matters of import at the moment. I appreciate the advice, guidance and financial skill you put at our disposal.'

Integration

In reply to the toast, Mr Granger referred to the integration scheme with The Society of Incorporated Accountants, and said:

'This has been a momentous year. If integration with the Society is successfully completed on November 1st, then our membership will have gone up from 19,000 to somewhere in the region of 30,000, and with it, of course, will be an automatic expansion in the influence we can exercise.'

'I think the horizons of the profession are going to be wider than ever before in the past. I do not think the examinations will be any easier, but there will be a proportionately greater chance for any chap who does his stuff.'

Proposing the toast of 'The Nottingham Chartered Accountant Students' Society', Professor Sprott spoke of his profound admiration and respect for accountants. He stated that the responsible advisory capacity of the accountant placed accountancy on the level of the older professions of law and medicine. 'It is perfectly obvious', he added, 'that it involves the study of the changing financial scene - the scene in which different types of finance operate and develop - and it may involve research into the changing techniques in commerce and in running concerns.' He congratulated the Society on its comprehensive study programme.

Record Membership

In response, Mr Moore said that membership of the Society had reached record proportions, but, nevertheless, there was still room for the right type of young men who were prepared to work hard. He mentioned that there were now eight lady members of the Society.

Continuing, he said:

'I would like to take this opportunity of saying how much we appreciate the action of the Technical College in resuming the revision courses which are held, and have been arranged since October 1952 - with the exception of the November 1956 and May 1957 examinations - during the four weeks prior to the half-yearly examinations. However, when we learn from the newspapers that the Nottingham Education Committee, who along with the Education Committees of the County and of neighbouring Derbyshire form the governing body of the Technical College, is arranging, admittedly as an experiment, a special course in "make-up" for teenagers, I feel that the articulated clerks of accountants locally are at least entitled to expect that this revision course, which has been proved of great benefit and received excellent support since 1952, should be resumed and the cost borne to some extent out of public funds.'

In conclusion, Mr Moore expressed the thanks of the Society to the lecturers for all their valuable work and stated that there had been a stimulating increase in attendance at lecture meetings.

Mr W. G. Underwood, Hon. Secretary of the Nottingham Chartered Accountant Students' Society, proposed the toast of 'The Guests' and His Honour Judge R. S. Nicklin responded.

Tributes were paid to Mr M. L. Oates, the Hon. Dinner Secretary, for his excellent arrangements, and to Mr M. G. Sermon, also a member of the Students' Society, who acted as toastmaster.

ACCOUNTS 'LABORATORY' PROPOSED

Plan for American Institute Research Organization

At the seventieth annual meeting of the American Institute of Certified Public Accountants held in New Orleans from last Saturday until Wednesday of this week, the new President of the American Institute, Mr. Alvin R. Jennings, C.P.A., said he regretted that 'the accounting profession, unlike medicine, had no "laboratory" for examining and testing new procedures'. He spoke as one of a panel that discussed a plan for a new research organization to assist the further development of generally accepted accounting principles.

Staff of Experts

The organization Mr Jennings proposed, would consist of a five- or six-man staff of experts able to contribute the points of view of industry and the academic world as well as that of C.P.A.s. Their conclusions would be submitted for approval or rejection by the Council of the American Institute. If accepted, the resulting bulletins would be binding upon members of the Institute in the application of what C.P.A.s refer to in their reports as 'generally accepted accounting principles'.

Mr Jennings said that a committee of the Institute which was created during the 1930s in order to recommend certain objectives of fair financial reporting to the New York Stock Exchange was transformed in 1938-39 into the Institute's committee on accounting procedure. This group has issued forty-eight bulletins that set out the accounting principles generally accepted by financial management, credit grantors, and Government agencies as well as the accounting profession in the United States.

This committee had done 'a remarkably fine job', he continued, but he noted that C.P.A.s might well concern themselves with the basic question of whether the present procedures are those which are best designed to achieve their purpose. As part of this purpose, he mentioned two 'tasks': to make accounts published by corporations more informative and authoritative; and to educate the public in regard to the significance of accounts, their value and their unavoidable limitations.

He mentioned the present official position of the Institute; that attempts to reflect in accounting the declining value of the dollar should, for the present, be achieved in supplementary data and explanations and not through the formal accounts. Thus, an independent C.P.A. whose client would like to compute depreciation on a basis other than historical cost must advise his client that to do so would be contrary to generally accepted accounting principles and would require the accountant so to state in his report.

The President made it clear that he was not raising a question as to the merits of this position of the Institute. However, he referred to the situation in a context of regret that the accounting profession, unlike medicine, had no 'laboratory' for examining and testing new procedures. He stated that accounting principles must be sufficiently rigid to give meaning to financial reporting and sufficiently flexible to permit of change when circumstances require.

'Limitations Inherent in Historical Costs'

Other speakers on the panel also mentioned problems arising from the impact of changing economic conditions on accounting principles. Mr Andrew Barr, chief accountant of the Securities and Exchange Commission, pointed out that although there is sufficient authority under several statutes for the Government agency to define accounting principles, the Commission early adopted the policy of leaving this to the accounting profession as far as possible. He observed that under the present set-up substantial progress had been made; he regarded the limitations inherent in historical cost basis of accounting as a challenge to both the Commission and the accounting profession.

He recalled that the Commission had in 1948 denied a request to reflect depreciation on replacement cost in financial statements filed with it. In 1954, the Commission rejected a petition that it should adopt a rule that economic depreciation be reflected either in the accounts or by other appropriate disclosure.

Improvement in Annual Reports

Mr Nicholas E. Crane, of New York, President of the New York Society of Security Analysts, said that there has been an enormous improvement in the quality of annual reports in the past decade. Most of his speech, however, was devoted to listing 'shortcomings'. He noted 'light treatment' of unfavourable developments. In the oil industry, he said there was a lack of uniformity in the grouping of such items as depreciation, depletion, amortization of intangibles, dry hole costs, rentals, and leases. He described mining companies as not giving the costs per pound of ore produced. In the steel industry, he asserted there was quite a variation among companies in the amount of inventory carried on LIFO.

The five-day annual meeting was attended by about 1,300 C.P.A.s from all parts of the United States and among the subjects discussed were tax problems, present-day problems of financial reporting and civic opportunities and professional practice of the C.P.A.

Mr George O. May, F.C.A., of Southport Connecticut, who was introduced as one whose life has spanned the growth of the accounting profession and as one of the few men who foresaw the 1929 stock-market crash, spoke on 'A quarter-century of accepted principles of accounting'. He was able to summarize from first-hand knowledge the profession's efforts to direct creatively the evolution of these principles.

Election of President

The election of Mr Jennings as President of the American Institute took place last Tuesday. He is a partner in the New York office of Messrs Lybrand, Ross Bros. & Montgomery.

A member of the Institute since 1935, Mr Jennings has served on its executive committee and Council. He is a former chairman of a number of Institute committees and is also a member of the American Accounting Association and of the New York State Society of C.P.A.s, of which he is a former Vice-President.

Notes and Notices

SCHEMES OF INTEGRATION

At the time of going to press it is not known whether the special resolution placing The Society of Incorporated Accountants into voluntary liquidation will be passed at the extraordinary general meeting on Friday, November 1st. The Privy Council of Northern Ireland and the Government of the Republic of Ireland have given their consent to alterations in the bye-laws of the Irish Institute and the passing of the resolution by members of the Society is the final step now required to enable the schemes of integration to be brought into operation.

We are asked to say that if the special resolution is passed the Society will send a communication to its members as soon as possible after the meeting and The Institute of Chartered Accountants in England and Wales will at the same time send a communication to its members. Meanwhile, it is hoped that members will refrain from making inquiries of their respective bodies either by letter or by telephone about the scheme.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

LIST OF MEMBERS 1958

The Secretary wishes to remind members that the latest date for the receipt of changes of address or other details for inclusion in the 1958 List of Members is November 18th, 1957.

THE INSTITUTE'S LIBRARY

VALUABLE NEW ACQUISITIONS

The Library of the Institute has recently been fortunate in adding to its unrivalled collection of early accounting books, by acquiring copies of three rare seventeenth century works.

Attending the sale at Sotheby's on October 21st, of property of the Hopetoun Estate Co (by the order of the Marquess of Linlithgow), Mr H. W. Thomson, Librarian of the Institute, was successful in bidding for the following:

A Most Excellent Instruction for the exact and perfect keeping Merchants Bookes of Accounts, by way of debtor and creditor, after the Italian manner, by John Carpenter. (I.B. for James Boler.) 1632. [£65.]

The Merchants Mirrour: or Directions for perfect ordering and keeping of his accounts, by Richard Dafforne. (R. Young for Nicolas Bourne.) 1635. [£55.]

The following work has been purchased for a sum of £50 from a private owner:

The Apprentices Time-Entertainer accomptantly: or a Methodical means to obtain the Exquisite Art of Accomptantship, by Richard Dafforne. (R. Young for Nicolas Bourne. 1640.

We hope to include a description of these works in an early issue.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 12.30 p.m. on Monday next, November 4th, in the vestry at St Mary Woolnoth Church, Lombard Street, EC3. The scripture for reading and thought will be the miracle of the great catch of fish. (St Luke, v, 1-11.)

PERSONAL

MESSRS WILFRID B. GOWERS & Co, Chartered Accountants of Sheffield, announce that as from October 18th, 1957, their address is Western House, 303 Western Bank, Sheffield, 10. Their new telephone number is Sheffield 60435.

MESSRS FOSTER & STEPHENS, Chartered Accountants, of Birmingham, announce that as from October 28th, 1957, their offices will be situated at 40 Hagley Road, Edgbaston, Birmingham, 16. The telephone numbers (Edgbaston 3688-9) will remain unchanged.

MESSRS FRANK, HANNON & WITHEY, Certified Public Accountants, of 444 Madison Avenue, New York, 22, N.Y., announce that they have admitted into partnership Mr PETER ELDER, C.P.A., and Mr JOHN C. OVERHISER, C.P.A. They also announce that they have opened a European office at 5 Guildhall Chambers, Basinghall Street, London, EC2, and that Mr RONALD WARLOW, T.D., F.C.A., Mr THOMAS PRIDEAUX, F.C.A., and Mr JOHN HARGREAVES, A.S.A.A., have been admitted to partnership at that office as from November 1st, 1957.

MESSRS GOULD, PRIDEAUX & HARGREAVES, of 5 Guildhall Chambers, Basinghall Street, London, EC2, announce that they have opened an office at 444 Madison Avenue, New York, 22, N.Y.

MESSRS MIDGLEY, GERRARD & Co, Incorporated Accountants, of 15 Wood Street, Bolton, announce that as from September 30th, 1957, they have admitted to partnership Mr ROY KEITH GERRARD, A.C.A., A.S.A.A.

PROFESSIONAL NOTES

Mr Allan K. Tunnock, M.A., A.C.A., has been appointed managing director of the Penmaenmawr and Welsh Granite Co Ltd as from November 1st, 1957.

Professor Robert Browning, M.A., LL.B., C.A., Professor of Accountancy at the University of Glasgow and senior partner in the firm of John E. Watson & Co, Chartered Accountants, of Glasgow, has been appointed a director of the Clydesdale & North of Scotland Bank Ltd.

Mr Douglas H. Steven, M.A.(GLAS.), C.A., has been appointed chairman of the Aerated Bread Co Ltd; Mr Steven will also continue to act as regional director of the southern group of Allied Bakeries Ltd.

NORTH LONDON DISCUSSION GROUP OF CHARTERED ACCOUNTANTS

The next meeting of the North London Discussion Group of Chartered Accountants will be held at 6.15 for 6.45 p.m. next Tuesday, at *The Mason's Arms*, 38 Maddox Street, W1, when Mr N. H. Davis, A.C.A., will lead a discussion on 'The organization of a professional office'. New members will be very welcome.

NORTH MIDLANDS REGIONAL COST CONFERENCE

A North Midlands regional cost conference was held last Saturday by The Institute of Cost and Works Accountants at *The Grand Hotel*, Leicester, when papers were given on 'The cost accountant's contribution to sales policy', by Mr H. Kennewell, F.C.A., and Mr Alan Kershaw, F.C.W.A., A.A.C.C.A., and on 'The cost aspects of raising productivity', by Mr W. Coutts Donald, C.A., F.C.W.A.

**COUNCIL ON PRICES, PRODUCTIVITY
AND INCOMES**

The Council on Prices, Productivity and Incomes, of which Sir Harold Howitt, C.B.E., D.S.O., M.C., D.C.L., F.C.A., is one of the three members, has prepared a list of questions which may serve as a guide to bodies intending to submit memoranda. The Council will welcome memoranda on all or any of these questions, and on other matters falling within their terms of reference, even though they go beyond the ambit of the questions.

Questions under consideration by the Council

- (1) The relation between general trends in prices, productivity and incomes, and in particular, the causes of the recent general rising trend of prices in the United Kingdom.
- (2) The importance of the general level of demand as a factor affecting the trends of prices, productivity and incomes.
- (3) The extent to which the authorities can and do control the general level of demand (a) by controlling the total supply of money, (b) by fiscal measures.
- (4) The importance of (a) wages and salaries, (b) profit margins and (c) import prices as factors affecting the general trends of prices, productivity and incomes.
- (5) In so far as wages and salaries are an important factor, the effect of the structure and working of the arrangements by which they are negotiated or otherwise decided.
- (6) The effect of restrictive practices on prices and productivity.
- (7) The part that could be played by 'voluntary restraint' in the determination of wages, profits and dividends, and the conditions necessary before such restraint could be expected from those who would have to exercise it.

The office of the secretary of the Council is at Sanctuary Buildings, 16 Great Smith Street, London, SW1. Telephone: Abbey 4896/7.

**THE STUDY AND APPLICATIONS OF
COMPUTERS**

A series of three meetings devoted to the study and application of the electronic computer in industry and commerce has been arranged by the accountant liaison service of The National Cash Register Co Ltd.

The aim of the lectures, which will be repeated on consecutive dates, is to provoke interest and discussion in this latest development in the sphere of accountancy. During the course of the lectures an opportunity will be given to study the National-Elliot 405 computer in operation. The course programme is as follows:

November 13th and 14th: 'Survey for computers: A review of computer characteristics and the problems of investigation', by Mr D. B. E. Douglas-Withers.

November 27th and 28th: 'Applications for computers: the production of data in a commercial office', by Mr G. Cushing.

December 11th and 12th: 'The auditor and the computer: auditing techniques for the new systems', by Mr J. W. Margetts, F.C.A., F.S.A.A.

The lectures will be held at 206-216 Marylebone Road, NW1, and readers who wish to attend the course should write to Mr D. Douglas-Withers, The National Cash Register Co Ltd, at the above address.

**SOUTHEND-ON-SEA CHARTERED
ACCOUNTANTS' GROUP**

The tenth year of activity of the Southend-on-Sea Chartered Accountants' Group started on October 17th last with a dinner-meeting at Garons' Restaurant, High Street, Southend-on-Sea. The meeting consisted of the annual general meeting, followed by a discussion on the Cheques Act; it was presided over by Mr John Dennington, F.C.A., and those present included Mr A. G. Touche, F.C.A., the Group's liaison member of the Committee of the London and District Society of Chartered Accountants.

Officers elected for 1957-58 are as follows:

Chairman: Mr Richard E. Barnett, F.C.A.

Vice-Chairman: Mr Anthony J. Wilson, F.C.A.

Secretary: Mr A. A. Stewart, A.C.A.

Treasurer: Mr Kenneth W. Kyle, F.C.A.

Member of Committee: Mr Maurice A. Wren, A.C.A.

Member of Committee and Honorary Press Officer: Mr John Kennedy Melling, A.C.A.

**CHARTERED ACCOUNTANTS'
HOCKEY CLUB**

The first fixture in the 1957-58 season of the Chartered Accountants' Hockey Club was held on October 9th at Purley, when members beat the articulated clerks by seven goals to one.

The annual match with the Law Society took place at Surbiton on October 16th when the Institute lost by three goals to two.

The Institute opened the scoring with a shot by D. R. Fyson, but the Society led by two goals to one at half-time. After the interval, Fyson equalized, but the Law Society fought back and scored another goal to win by 3-2. The Law Society had a strong forward line against which P. Clark and M. A. Charlton were very sound in the Institute's defence.

The Institute team was:

D. A. Tubby (Westcliff); C. Stansfield (Bishop's Stortford); D. A. Tripp (Surbiton); B. Clark (Purley); P. Clark (Blackheath); G. D. Jones (Polytechnic); M. A. Charlton (Rickmansworth); D. R. Fyson (Cheam); W. L. Rowland (Purley); S. Ward (Stevenage); C. Notton (Purley).

FUTURE MATCHES

Other fixtures have been arranged as follows:

November 13th: v. Stock Exchange, at Purley.

December 11th: v. Chartered Surveyors, at Surbiton.

December 12th: v. Bristol and Cardiff Students, at Bristol.

January 29th, 1958: v. Birmingham Students, at Birmingham.

February 12th: v. Oxford University Occasionals, at Imber Court.

March 19th: v. Insurance Hockey Association, at C.U.A.C.O. ground.

March 26th: v. Solicitors' Articled Clerks, at Surbiton.

May 21st: v. Purley, at Purley.

July 23rd: v. Bank of England, at Roehampton.

Applications for membership of the club should be addressed to the Hon. Secretary, Mr Wentworth L. Rowland, F.C.A., 56 Moorgate, London, EC2.

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WORK SIMPLIFICATION IN THE OFFICE

A one-day conference on work simplification in the office is to be held at Robert Hyde House, Bryanston Square, London, W1, on November 18th. The conference, which is organized by the Industrial Welfare Society, will cover briefly both the theory and practice of work simplification in the office, and in view of the acute shortage of office staff, the growing need for higher efficiency and the best use of staff.

During the morning, Mr Bernard Ungerson, C.B.E., B.Sc.(ECON.), director, the Anne Shaw Organization Ltd, will speak on 'What do we mean by work simplification?', and Mr Michael D. H. Ross, methods study

manager, Harrod's Ltd, will give a paper on 'Methods study: some practical applications'. During the afternoon, Mr John Holland, assistant director of the Industrial Welfare Society, will address the conference on 'Office work simplification in practice'. The conference will end with an open discussion illustrated by a filmstrip case-study on 'Getting new methods accepted by the staff'.

Readers wishing to attend the conference, for which the fee for non-members is £3 3s, should write to Mrs O. K. Skelley, Administrative Officer, Industrial Welfare Society (Inc), 48 Bryanston Square, London, W1.

LONDON STUDENTS' COLUMN**News from the London Chartered Accountant Students' Committee****Survey of Articled Clerks' Conditions**

The resolution passed at the 1957 annual general meeting requesting a survey of the members of the Society has been given great and detailed consideration by the committee, who have stated in a letter which should now be in the hands of all members the reasons for the Committee's decision that a survey at such a time as this is impractical. Members are invited to an informal meeting with the committee should they wish to discuss the matter further.

Alteration in Rules

The committee has appointed a subcommittee to revise certain of the rules of the Society arising out of the changes due to integration, and other changes which have been suggested from time to time.

Programme Changes

The date of the mock company meeting previously arranged for Tuesday, December 3rd, has now been finally settled for Wednesday, December 4th, at 5.30 p.m. at the Chartered Insurance Hall.

The general lecture on Monday, November 18th, will be given in Room 23, Winchester House, Old Broad Street, and not in the Oak Hall of the Institute, as previously announced.

Gift to the Library

The committee is pleased to record the gift of sixteen *Chartered Students' Telephones* received through Mr B. D. Minns.

Mid-Surrey Branch of the London Students' Society

The Guildford branch of the Students' Society, which has been run by Mr Cornish and Mr Brooks, has now

ceased to be organized from that town. In future, a branch to be established in Dorking will continue its functions. The probable name of this branch will then be the Mid-Surrey Branch of the London Students' Society. Negotiations are at present going on about the establishment of this branch and further information will be available shortly.

Whole-day Course

The demand for places at the first whole-day course held on Monday, October 7th, was so great that a further two whole-day courses are being arranged for the spring session. Priority in attending these courses is given to members living out of London for whom the normal lectures and other activities are out of the question because of the distances to be travelled; places may, however, be available for members who live in London.

Next Week's Meetings

The following meetings will be held during next week:

Monday, 5.30 p.m., at the Institute: Lecture on 'The approach to an audit', by Mr J. E. Clarke, F.C.A., F.S.A.A. Chairman: Mr H. O. H. Coulson, F.C.A. (Joint Honorary Auditor of the Students' Society).

5.30 p.m., at Stony Stratford: Lecture on 'Income tax losses', by Mr L. J. Northcott, F.C.A.

Wednesday, 6.0 p.m., Lecture and demonstration of National Accounting Machines (limited number).

Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'Company law', by Mr Patrick W. Medd, Barrister-at-Law.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on (1) 'Income tax', by Mr J. Kennedy Melling, A.C.A., A.T.I.I., F.R.ECON.S., and (2) 'The law of banking', by Mr P. W. Medd, Barrister-at-Law.

7.0 p.m., at Chelmsford: Lecture on 'Profits tax', by Mr H. W. May, F.C.A.

MOTOR — FIRE — CONSEQUENTIAL LOSS
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10 ST JAMES'S STREET, LONDON, SW1



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AVE ATQUE VALE

THE integration scheme, the details of which were first made known last December, has come to maturity with a precision which must be very gratifying to those who planned it. No serious hitch occurred in the long and complicated sequence of events. An early indication of its likely success was the favourable vote cast at the meeting of the members of The Institute of Chartered Accountants in England and Wales in the Royal Festival Hall, London, in February. The meetings of the Scottish and Irish Institutes followed and then the polls in all three instances confirmed the pattern of the earlier voting. By mid-June, the way was clear for members of The Society of Incorporated Accountants to make their momentous decision.

This they did in no inconclusive manner. Both the vote taken at the meeting of members held in the Royal Festival Hall in late June and the subsequent poll, the result of which was announced in August, were overwhelmingly in favour of integration. Since then, the Privy Councils of the United Kingdom and Northern Ireland and the Government of the Republic of Ireland have given their consent where required to the alterations in the constitutions of the three chartered bodies and, to bring the chronicle down to date, at an extraordinary general meeting of its members held on Friday of last week, a resolution was passed putting the Society into voluntary liquidation. Integration was officially born last Saturday and is now one week old.

That the scheme should have come into being so smoothly is a tribute not only to those who conceived and executed it in such meticulous detail but to the rank and file members of the three Institutes and of the Society in whose hands its ultimate destiny was placed. The correspondence columns of this journal can testify to the seriousness with which the issue in all its aspects was discussed and accounts of the many meetings held up and down the country by the district societies demonstrate that the cut and thrust of constructive debate was on the same earnest level. Whatever the eventual outcome of integration, it cannot be said that the merits and demerits of the scheme were not fully weighed before the all-important votes were taken.

Now that the vision has become a reality it is perhaps appropriate, before looking to the future, to take a backward glance of what has been lost by this imaginative move. Progress almost inevitably entails sacrifice and, in this instance, it is the extinction of The Society of Incorporated Accountants which is the chief cause for regret. The Society was founded seventy-two years ago in an atmosphere of antagonism and, for some time, had to fight for survival against the Institute which, with its five years

seniority and established connections, regarded itself in every way as the superior body.

The original members of the Society, however, possessed a toughness of fibre and a soundness of vision which thrived on adversity. Also, the expansion of the country's trade and commerce meant that there was a continuously increasing demand for the profession's services. It was soon clear that there was room for both bodies and, work apart, it may well have been that the presence of the one spurred on the other to maintain and improve its ethical and examination standards. Because of these and other reasons, enmity waned and the record shows that the subsequent relations between the Institute and the Society may fairly be summarized in three words – co-existence, co-operation, integration.

In reaching the heights of its latter-day eminence, the Society was fortunate in the outstanding qualities of its leaders. In his valedictory remarks, featured elsewhere in this issue, at last Friday's meeting, SIR RICHARD YEABSLEY pays tribute to two outstanding servants, SIR JAMES MARTIN, the first secretary, who held the post for thirty-three years, and MR A. A. GARRETT, who took over and carried on the good work of his distinguished predecessor with the same constancy and devotion for another thirty years. These two men, between them, saw the Society develop into an intellectual power in the profession and are themselves part of its historical fabric. It is fitting that the name of one of them should be commemorated in the title of the Stamp-Martin chair of accounting at Incorporated Accountants' Hall, the first endowment of its kind by a professional accounting body.

In the transition plans, there is one matter which everyone would have liked ordered differently and that is the arrangement regarding those members of the Society who have not had practical experience in the office of a practising public accountant and who, in consequence, are offered membership of the Institute in a new 'incorporated accountant' class with reservations as to title and the right to take on articled clerks. It is true that subsequent service in a professional office for a prescribed period will make them eligible for the 'chartered accountant' designation and what goes with it but, in very many individual cases, it would not now be practicable to fulfil

this condition. The principal Society opposition to the scheme understandably came from this element of its membership and when the PRESIDENT of the Institute, in his special integration message which we print in this issue, makes a thoughtful reference to 'some who were unable to support the scheme' there is no doubt that it is this particular class he has in mind. While we consider that the Institutes had no alternative but to hold to their belief that an office training is an essential prerequisite to becoming a chartered accountant, we share his confidence that all members of the Society without exception will give the Institutes their whole-hearted support and loyalty.

The list of notable dates in the evolution of the profession in the United Kingdom which we give on another page reveals two main institutional tendencies. In broad historical order they are, firstly the creation of new accountancy bodies and then the merging of existing ones. The first phase lasted until just after the First World War when The Institute of Cost and Works Accountants was formed. The second and present phase, one of amalgamation, absorption and integration as the schemes have been variously described, includes the unification of what is now The Association of Certified and Corporate Accountants in 1939, the merger of the three Scottish bodies into one Institute in 1951 and, now, the integration of the Society with the three chartered bodies. These unions took place for a number of good reasons. In the case of the present scheme few, if any, will disagree with SIR RICHARD YEABSLEY's proud claim that the existing generation of the Society's members, by following the example and precepts of their predecessors, has 'achieved such a high standard in the profession that integration was the natural outcome'.

The Joint Standing Committee, to which the PRESIDENT of the Scottish Institute refers in his message on another page, will no doubt have many difficult problems to resolve. Now is the time and the hour to put the theories of the past ten months to the practical test and, in doing so, everyone should keep in mind the remark of CATO to his friend at Utica:

"Tis not in mortals to command success,
But we'll do more, Sempronius; we'll deserve it."

INFLATION AND TAXATION

THE discussion about inflation and its effect on taxation goes on. By taxation is meant, of course, the taxation of income, and the advocates of changes in the law to soften the blow of inflation are not concerned with income taxation generally so much as with the taxation of business profits. The argument may be summed up in the following way. If during an accounting year the £ has fallen in value by 10 per cent, then unless the aggregate value of a company's assets, measured in money, has not increased by enough to counteract the fall in the value of money itself, the company has not made any profit in that period, or at any rate no profit out of which any tax ought to be paid.

In a paper presented on Thursday at the London and District Society's Taxation Conference at Eastbourne, and reproduced in this issue, Mr C. D. HELLYAR, F.C.A., puts it in this way:

'there should be provided out of the profit of a business the sums needed to preserve the real capital employed, regardless of any change in the purchasing power of the monetary unit.'

Presumably the phrase 'regardless of any change in the purchasing power of the monetary unit' governs 'real capital' but not the sums which are to be 'provided'.

This theory seems to combine two separate matters. The first is the principle laid down by the first Tucker Report, namely, that capital used up in producing profit should be allowed in computing that profit for tax purposes, i.e. that depreciation allowances should not be confined, as they are now, to a limited range of assets. The second matter, which did not receive Tucker support, is that in computing any loss of capital for this purpose, regard should be had not to its historical cost but to an arbitrary figure as representing what the asset would cost now as a result of inflation. The practical difficulties of carrying this out over the whole range of a company's assets need hardly be stressed. Accordingly, Mr HELLYAR goes on to say:

'For practical reasons adjustment is usually limited to stocks and fixed assets. It is in respect of these physical assets that accounting remedies are available and have been applied by certain companies for a number of years.'

As a matter of commercial prudence these 'remedies' are of course unexceptionable, but it

does not necessarily follow that they result in a more accurate figure of overall profit, whatever meaning is given to 'accurate'. In the case of a company operating almost entirely on borrowed money or on preference capital redeemable at par, such remedies, confined as they are to certain assets, could produce a gross understatement of profit, because they completely ignore the fact that inflation also reduces the real burden represented by a debt. If a company finances its stock purchases with a £1 million debenture or issue of preference shares repayable at par, and inflation puts up the value of that stock from £1 million to £1,100,000, then on conventional accountancy principles the company has made a profit of £100,000. If an adjustment is to be made on account of inflation, it is surely more logical to reduce that £100,000 by a similar proportion, instead of treating it as wiped out altogether.

In the history of income tax the granting of allowances for depreciation has been a slow process. It began with allowances for the physical wear and tear of plant and was later extended to obsolescence and later still other specified assets received corresponding treatment. If this gradual piecemeal extension is to be replaced by the adoption of the fundamental rule propounded by the first Tucker Committee, under which the whole profit-earning structure qualifies, then the time has perhaps come to consider the rights of an individual who employs not so much purchased assets as his own training, ability and energies. Being mortal he cannot hope to maintain his earning capacity, and in some callings the process of erosion is remarkably speedy. The case for some allowance for the wear and tear of an individual is not lightly to be brushed aside. If investment allowances are a recognition of the difficulties caused by inflation, then it seems to follow that relief from inflation is being given at present to only one sector of the taxpaying public.

Mr C. W. ASTON, A.C.A., a general manager of P. & O. Steam Navigation Co, touches upon the problem of inflation in an interesting article about investment allowances published in the October issue of *British Shipping*. He points out that since the Royal Commission was appointed in January 1951, the cost of shipbuilding has gone up by nearly 70 per cent.

IS AN ISOLATED TRANSACTION TAXABLE? PURCHASE AND SALE OF REAL PROPERTY

by MAX ENGLAND, B.A., LL.B.

ONE of the most frequent problems accountants are confronted with is the question whether the surplus arising out of a single transaction of purchase and sale of real property is taxable or not. One cannot, of course, give a general answer to such a question, as very much depends on all the circumstances in the case. The history, trade or profession of the person concerned, whether the property has been adapted for sale, converted, etc. — all these are factors to be considered.

As so much depends on the facts of each individual case it will be appreciated that the decision of the Commissioners will in most cases be treated as being one of fact, with which the Courts will as a rule not interfere. This is borne out by the many decisions on this subject, where the essence of the judgment can almost invariably be summarized in these few words: 'the Commissioners had some evidence before them to arrive at their decision'. It is a question of fact, with which the Courts have no power to interfere. In some cases the learned judge(s) may add some remarks expressing approval or disapproval — as the case may be — of the conclusions of the Commissioners, but this will make very little difference to the outcome of the case or to the taxpayer, who has to bear the cost of the appeal. From the taxpayer's point of view it is, therefore, of the utmost importance to prepare and present his case to the Commissioners with the utmost care. An appeal from their decision is in most cases inadvisable.

Position in Law

Should the Commissioners err in law, or if there was *no* evidence before them to support their finding, or should the evidence be such that no reasonable person could have arrived at their conclusion, the Courts have power to reverse their decision.

How far the conclusion of the Commissioners is a question of fact and how far a matter of law was reviewed by the House of Lords in the leading case of *Edwards (Inspector of Taxes) v. Bairstow and Harrison* (34 A.T.C. 198). Up to then there was an apparent divergence between English and Scottish Law. Following the decisions in *Cooper v. Stubbs* (4 A.T.C. 373; 10 T.C. 29) and *Leeming v. Jones* (9 A.T.C. 134; 15 T.C. 333), the English Courts treated the determination of

the question by the Commissioners whether a transaction amounted to an adventure in the nature of trade as a finding of fact which the Courts could not reverse, unless the stated case showed an error in law or any of the other defects mentioned in the preceding paragraph.

On the other hand, in Scotland the Court of Session in recent years considered such findings of the Commissioners as mixed ones of fact and law, which the Courts had power to review (*vide* Lord Russell's judgment in *C.I.R. v. Reinhold* (32 A.T.C. 10; 34 T.C. 389)).

Although the decision in the *Bairstow and Harrison* case was given on different grounds, Viscount Simonds, L.C., in his speech, attempted to reconcile the two views in the following way. A review of various House of Lords' decisions lends at first sight support to the line taken by the English Courts. One has, however, to distinguish between the determination of the primary facts and the inference drawn from them, viz. whether the transaction in question constitutes an adventure in the nature of trade. The former is a question of fact, the latter, however, depends on a right interpretation of the law as to the characteristics of trading and is, therefore, a question of law. Such an inference could, therefore, only be regarded as an inference of fact, if it was assumed that the Commissioners were rightly directed in law.

Lord Radcliffe saw value in the distinction drawn between primary facts and inferences drawn from them, although he aptly remarks

'an inference drawn from other facts is not incapable of being itself a finding of fact'.

The divergence between Scottish and English law on this point is, in his view, more apparent than real and may have arisen by an oversimplification in asserting that it is simply a question of fact whether or not a trade exists. It is not. The interpretation of the statutory words 'trade, manufacture, adventure or concern in the nature of trade' (Section 526, Income Tax Act, 1952) is a question of law. But no precise definition of these terms is given in the statute. Therefore a wide field is open to the Commissioners depending on many combinations of circumstances. In many such cases it could not be said to be wrong to arrive at a conclusion one way or the other. Where this is the case the determina-

tion of the Commissioners cannot be said to be 'erroneous in point of law' and consequently the Courts have no power to interfere with their decision. Three other points seem to emerge from an analysis of the many cases dealing with isolated transactions.

Case I or Nothing

It is now firmly established that the surplus arising from a single purchase and sale can only be charged – if at all – under Case I of Schedule D as an adventure in the nature of trade but not under any other case. Attempts by the Inland Revenue to assess it under Case VI of Schedule D failed. If any authority for this proposition is needed, one has only to turn to the following dictum of Lawrence, L.J., in *Leeming v. Jones* (8 A.T.C. 315) which was approved by Lord Buckmaster in the House of Lords (9 A.T.C. 137). He said:

'It seems to me in the case of an isolated transaction of purchase and resale of property there is really no middle course open. It is either an adventure in the nature of trade, or else it is simply a case of sale and resale of property' (i.e. a capital transaction).

Applying this dictum one has to examine whether the transaction under consideration has any of the essential elements of a trading adventure. One of the main purposes of trading is to make profits and the profit-seeking motive may have considerable bearing on the outcome of the case. Indeed, as Lord President Clyde put it in the leading case of *Rutledge v. C.I.R.* (8 A.T.C. 207; 14 T.C. 490, 497):

'It is no doubt true that the question whether a particular adventure is "in the nature of trade" or not must depend on its character and circumstances but if . . . the purchase is made for no purpose except that of resale at a profit, there seems little difficulty in arriving at the conclusion that the deal was "in the nature of trade", though it may be wholly insufficient to constitute by itself a trade.'

Real Property and Other Goods

However, the reports seem to show that a distinction is drawn between cases where the subject-matter of the purchase and sale is a commodity in the nature of ordinary trading stock and those where the subject-matter is real property (or some object of art or something in the nature of an investment). Where ordinary trading stock is involved, the Commissioners and the Courts are much more ready to find an adventure in the nature of trade, particularly where the sole or main object was to make a profit. This is not

necessarily the case where real property is involved. One only needs to contrast the *Rutledge* case with that of *C.I.R. v. Reinhold*. In the former, Rutledge, a money-lender who had also various other business interests, was on a business trip in Berlin in connection with one of his cinematograph companies. Whilst there he was offered very cheaply a large quantity of toilet paper. He purchased it, and shortly after his return to this country sold the whole consignment to one person at a considerable profit. This was held to be an adventure in the nature of trade and the profits were chargeable to income tax and excess profits duty. One factor taken into consideration was the fact that these were goods which by their nature could not be said to be other than trading stock and could only have been bought for the purpose of resale at a profit.

In the *Reinhold* case, a director of a company carrying on the business of warehousemen bought four houses in 1945 and sold them at a profit about three years later. He admitted that he had bought the property with a view to resale and had instructed his agents to sell should a suitable opportunity arise. It was held that the fact that the property was bought with a view to resale did not *by itself* make the transaction an adventure in the nature of trade and the Commissioners were justified in discharging the assessment.

In their judgments, their lordships discuss, *inter alia*, the distinction to be drawn between cases where the subject-matter of the transaction is a commodity in the nature of trading stock and those where the subject-matter has the character of an investment, and state the following principles:

- (i) A capital accretion does not become income merely because the original capital was invested in the hope and expectation that it would rise in value. If it does so rise its realization does not make it income.
- (ii) The fact that a person does not intend to hold an investment may be an item of evidence to show whether he is carrying on a trade or concern in the nature of trade in respect of his investments, but *per se* it leads to no conclusion whatever.
- (iii) An investment is something normally used to provide an annual return such as lands, houses, or stocks and shares.
- (iv) Certain transactions show inherently that they are not investments but incursions into the realm of trade or adventures of that nature, e.g. the *Rutledge* case, or the case of *C.I.R. v. Fraser* (21 A.T.C. 260; 24 T.C. 498), involving the purchase and sale of whisky.
- (v) Although the fact that a transaction is an

isolated one may be of importance, it is irrelevant in some cases where the commodity itself stamps the transaction as a trading venture; when the profits and gains will be plainly income liable to tax.

Position of Companies and Individuals Contrasted

The third deduction to be drawn from an examination of the various cases is rather interesting and of considerable importance. The activities of an individual may comprise many fields, some connected with his trade or profession, some private. He may engage in some enterprise outside his normal trading or professional activities which, because of its size or operations involved, may constitute, *per se*, an adventure in the nature of trade. All this is a question of degree and thus largely a question of fact.

This was well illustrated in the case of *Page v. Pogson (Inspector of Taxes)* (33 A.T.C. 363). In that case, Page, a clerk of works, bought a plot of land in November 1946 and built on it, without employing any outside labour, a bungalow which he completed in December 1948. He lived in it with his wife until May 1949, when he sold it at a profit. He then started to build another bungalow at Christchurch in which he and his wife lived from September 1949. This bungalow he completed in June 1951. Later that year he took up an appointment at Wisbech and subsequently sold the bungalow at a profit.

It was held, *inter alia*, affirming the decision of the General Commissioners, that the first bungalow was not built with the idea of resale and the surplus arising from this operation was, therefore, not taxable, but the second bungalow was built as a business venture and the profits arising were assessable in the year in which it was sold.

In the case of a company the position is different. Being a legal person the tribunals will first examine the memorandum to see if dealing in real property is one of the objects of the company. Although the memorandum is not conclusive and usually confers much wider powers than are required for the normal operations of the company, the tendency of the Courts is to charge to tax the profits of a single purchase and sale of real property, if such transaction is within the powers of the company. This is particularly so where the normal trading operations are somehow connected with real property, even if they do not include the buying and selling of land.

A comparison between the cases of *Relim Ltd v. Vise (Inspector of Taxes)* (30 A.T.C. 105) and *C.I.R. v. Toll Property Co Ltd (In Liquidation)*

(31 A.T.C. 322) on the one hand, and the *Reinhold* case on the other, illustrates very clearly the difference in approach when dealing with (a) companies, and (b) individuals. In the *Relim* case, the company had power under its memorandum to engage in the purchase, management, development and sale of land and property. During the period April 1938 to March 1944 the company bought a number of houses and garages, some land and a farm, all of which it let to tenants. Up to the year 1945-46 the company was treated for income tax purposes as an investment company. Between July 1945 and August 1947, the company sold two out of its twelve houses, all the land and the farm. The company's submission that this constituted a realization of capital assets failed and the profits were held liable to tax. The General Commissioners, the Court of first instance, and the Court of Appeal, all stressed the fact that the company by its memorandum had power to trade in land, and thus the Commissioners were right in treating it as a trading company notwithstanding the fact that the company had up to then been assessed as an investment company. Similarly, in the *Toll Property* case, one of the considerations for reversing the majority decision of the General Commissioners was the fact that the company by its memorandum had power to deal in property.

Conclusion

The position may thus be summed up as follows:

(1) The surplus arising out of an isolated transaction of purchase and sale is - if at all - only chargeable under Case I of Schedule D, but not under Case VI.

(2) Whether the transaction constitutes an adventure in the nature of trade depends on all the circumstances of the case and is thus largely a question of fact.

(3) Therefore, the Courts are reluctant to interfere with a decision of the Commissioners unless there was *no* evidence before them to arrive at their findings, or they erred in law, or arrived at a perverse decision.

(4) One important element of an adventure in the nature of trade - though by itself not conclusive - is the profit-seeking motive.

(5) Trading is more readily presumed where the subject-matter of the transaction is in the nature of trading stock than it is where it has the character of an investment.

(6) In the case of a limited company, guidance will be sought from the objects clause whether the transaction falls within the trading activities of the company.

THE EFFECT OF INFLATION ON TAXATION

by C. D. HELLYAR, F.C.A.

SCOPE OF DISCUSSION

Direct Taxation: Causes of Constant Legislative Changes

IT may seem to some of us that direct taxation in our day is in a constant process of flux. Although variety may be the spice of life, there is a limit to its charm. Since 1939 we have had enough tax legislation to satisfy the strongest appetite.

It was not always so. Apart from the long epoch before the fateful years 1914-18, there was even between the two wars a period of comparative stability. Many of the principles of interpretation which we still cherish (until they are upset by the House of Lords) were patiently established in the Courts during these periods of relative quiescence.

There are several reasons for these constant changes. One of them lies in the post-war theory that taxation should be a principal instrument in what is called economic planning. Under the influence of this theory successive administrations have levied taxes designed, *inter alia*, to produce budgetary surpluses in order to supplement the deficiency of private savings in relation to capital investment.

I am no economist and have nothing to say about this theory except that it is not everywhere accepted as sound. There are, indeed, heretics who have suggested to me that the title of this paper ought to be 'The effect of taxation on inflation'.

One thing is certain, quite apart from budgetary surpluses, the swollen figure of state expenditure which all Governments seem powerless to reduce would in any case impose upon us an unconscionable burden of taxation.

Inflation as the Major Post-war Problem

Fortunately we are not concerned today with economic theory but with the technical consequences of legislation as applied in practice. Since taxation is always on the move we must, however, be alert to significant trends which are shaping taxation concepts. One of my aims will be to bring out these trends.

In order to give some shape to the discussion I have therefore chosen a theme which underlies many of the taxation changes since the end of the Second World War, namely, inflation.

Effect of Inflation on Company Taxation

My review, which will inevitably be somewhat sketchy, will be limited to a discussion of the taxation of business profits, in particular income tax and profits tax; it will deal primarily with the profits of companies in the context of post-war Finance Acts and decided cases. It will have two aspects:

- (a) Legislative and other measures designed to correct inflation.
- (b) The effect of inflation on the measurement of profit.

Let me begin by talking about anti-inflationary legislation. Where tax is raised in a particular way primarily for some reason of economic and social policy and not for purely revenue reasons, we are, I think, entitled to examine whether the technical means chosen are in fact implementing the policy.



Mr C. D. Hellyar

ANTI-INFLATIONARY MEASURES

Profits Tax

One particular tax, the profits tax, contains features which are explicitly designed to fulfil an anti-inflationary purpose.

Excess profits tax was finally repealed on December 31st, 1946. During the war the old National Defence Contribution at a flat rate of 5 per cent had run alongside the excess profits tax as an alternative tax but, as from January 1st, 1947, it was remodelled into its present two-tiered structure and retitled the profits tax. The rates have varied from time to time but, as you know, the tax is at present levied at a rate of 30 per cent on all profit, then 'non-distribution relief' is granted at 27 per cent, this relief being withdrawn subsequently if distributions are made.

The purpose of the change was expressly stated by Dr Dalton, in his budget speech in 1947, to be to discourage the increase of distributions of profit in order to restrain inflation and encourage productive investment in the form of ploughed-back profits. On this ground the differential rate has been continued year after year by successive administrations.

The majority of the Royal Commission on the Taxation of Profits and Income was not impressed by that argument. They went so far as to say:

'The mere retention of profits cannot be rated as an economic advantage; on the contrary, it would better serve the public to distribute those profits which it cannot put to fruitful use in order that there may be a chance that they may be invested effectively elsewhere. Nor is it advantageous for the economy that the level of dividends should be kept down. Whatever considerations bear upon the problem the market value of shares in industrial and commercial enterprises is artificially depressed and an obstacle placed in the way of raising new capital.'

Many people would agree with the judgment of the Royal Commission. The tax is, moreover, arbitrary and anomalous in its incidence, especially those features of it which relate to distributions. I list a few of the more notable anomalies:

- (i) Preference dividends are counted as distributions of profit. As there is no machinery for passing on the burden of the tax thereon to the preference shareholder, the whole of it has to be borne by the ordinary shareholder out of his equity. Consequently money other than ordinary capital is usually raised nowadays in the form of loans or debentures, the interest on which is deductible for profits tax.
- (ii) The definition of 'distribution' is very wide. If capital profits are distributed, irrespective of when they were realized, they are, quite arbitrarily, deemed to be paid out of the undistributed revenue profit. Moreover, excess distributions are artificially deemed to have been made on a 'last-in-first-out' basis out of the available profits.
- (iii) It is obviously not possible to distribute all the profits earned in a period since profits tax has to be paid, but, if a distribution is deemed to be made out of profit of a previous period, a distribution charge can be made on the full amount of the profits tax paid for that period.
- (iv) The existence of a large and accumulating contingent liability is a serious problem which hangs over every company that does not fully distribute its profits. Even liquidation does not avoid it but, indeed, precipitates payment of the liability. Recommendation XVI issued by The Institute of Chartered Accountants in England and Wales in relation to prospectuses prescribes that the accountant's report

'should include an appropriate reference to the existence of an accumulated amount of non-distribution relief'.

No guidance, however, exists in relation to the annual accounts.

It is not surprising, therefore, that the majority of the Royal Commission proposed that the double-tiered system should be converted into a flat rate.

They spent some time trying to decide whether a company ought in theory to be regarded as having a separate taxation capacity from that of its shareholders. As a company is entitled to recover by deduction from its dividends income tax at the standard rate, it can be said to bear income tax on its

undistributed profits only. The majority of the Commission felt that as most companies retain a substantial part of their profits this part should not escape taxation altogether. It belongs ultimately to individual shareholders, though not being available for their use it has a lower taxable capacity than if it were so available.

Although income tax on the retained profits fits well enough into this picture, the profits tax as at present designed does not.

The Council of the Institute in approving the recommendation stated that they regard it as axiomatic that with the introduction of a flat-rate, profits tax potential liabilities in respect of non-distribution relief will be cancelled. They also support the recommendation of the Royal Commission majority that the exemption and abatement reliefs for small businesses should be dropped.

The Government has not so far responded to these suggestions.

Surtax on Undistributed Profits

On August 1st, 1957, the Chancellor of the Exchequer announced that, in future, in relation to accounting periods closing subsequently to that date, he would not apply to profits of companies falling under Section 245 of the Income Tax Act, the concession hitherto known as the 'Chancellor's umbrella'. This is a most significant development which deserves examination.

As we know, Section 245 provides that the Special Commissioners may make a direction to surtax in the case of a company under the control of not more than five persons, if it has not within a reasonable time after the end of the accounting period under review distributed to its members a reasonable dividend. Such direction takes the form of apportioning the whole of the income among the shareholders for surtax purposes.

If a surtax direction is made upon a company in these circumstances, the whole of the income is deemed to be distributed to its shareholders. There is a right of appeal to the Special Commissioners (and the Board of Referees) on the grounds that the sums undistributed are required for the maintenance and development of the business. The latter, however, have no power to declare that only such part of the profit as ought reasonably to have been distributed should be the subject of a direction. As a result, the effect of the application of the section is penal.

In 1947 it was felt that, in the existing inflationary conditions, no encouragement should be given to companies to pay dividends which they might not otherwise pay, especially in the light of the new profits tax levy on distributed profits. As a result, by announcements made by successive Chancellors in June 1947 and July 1948, it was prescribed that surtax directions should not be made in certain cases if the taxpayers complied with a new extra-statutory rule. Broadly, this rule was that dividends should not vary from those accepted as reasonable prior to June

1947. A somewhat similar concession has been applied to newly-formed companies.

All this has now been swept away. No reasons have been given for the change and no good purpose would be served by speculating thereon. Logically, the Chancellor should now go on to accept the Commission's majority recommendation that the differential rate of profits tax on distributions should be abolished since he seems to have accepted their arguments quoted earlier. However, let us not be too optimistic since logic is not always evident in the framing of tax legislation.

Moreover, the majority also recommended that in the case of surtax directions, the Special Commissioners or the appropriate appellate body should have the obligation to determine what is a reasonable dividend, instead of deeming the whole profits to be distributed. It is to be hoped that the Chancellor will arrange to have this provision at least enacted in the next Finance Bill.

The relation of profits tax to surtax is rather odd. In principle, profits tax is applicable to corporate bodies only; it is not applicable to partnerships or sole traders. Companies under the control of five persons are in an intermediate position in so far as, if a surtax direction is made upon their profits, they are exempt from profits tax thereon as though they were a partnership. On the other hand, if no direction is made on a company, it pays profits tax and its shareholders also pay surtax on their dividends. The logic of all this is not apparent.

The Measurement of Profit

The principal question in income tax is, as we know, 'What is income?' but the narrower question 'What is profit?' holds quite sufficient pitfalls.

We have it on the highest legal authority that:

'the word "profits" for income tax purposes is in general to be understood in its natural and proper meaning, and that the assessable profits are to be ascertained on the ordinary principles of commercial accounting'.

Any satisfaction which we might have derived from such remarks has, however, been rather rudely shattered recently, notably in the *Broadstone Mills* case, and it was with some feeling of relief that we read Lord Radcliffe's comment in *Owen v. Southern Railway of Peru Ltd* (35 A.T.C. 147; 36 T.C. 602):

'... I should view with dismay the assertion of legal theories as to the ascertainment of true annual profits which were in conflict with current accounting practice and were not required by some special statutory provision of the Income Tax Acts'.

Nevertheless, it is now quite clear that while the Courts will have regard to accounting practice they will not necessarily accept it as the correct method of ascertaining the proper assessment for income tax.

It should also be borne in mind that it is sometimes convenient to be able to argue that what has been done in the accounts is not decisive for income tax purposes.

There is, of course, some justification for the attitude of the Courts. For tax purposes profit has to be calculated with reasonable certainty and consistency and we must admit that in spite of Companies Acts and Institute Recommendations, accepted accounting practice leaves a great deal – perhaps an excessive amount – of latitude for differences of judgment and opinion.

However, what I am discussing is the effect of inflation on taxable profits. My remarks may be painfully familiar to you, but with the passage of time and the steady deterioration in the purchasing power of money, the subject is as topical today as it ever was.

The classic statement of the problem of 'inflation accounting' appears in No. XV of the Council's *Recommendations on Accounting Principles*, entitled 'Accounting in relation to changes in the purchasing power of money'.¹ It was issued in May 1952 in amplification of the original Recommendation XII. It will be recalled that subsequently the Council had conversations with the other main accounting bodies to see whether any joint conclusions could be expressed, and that these conversations produced no agreement.

Recommendation XV analyses with the customary lucidity the elements of the problem and the suggestions put forward for solving it. It is when one comes to the section 'Economic and social issues' that doubts begin to arise. One of them, for example, queries whether

'a new conception of profit would make it necessary for prices to be raised in order to enable a business to pay a fair return to investors or, indeed, to make a profit at all; in other words whether the effect would be to cause a further fall in the purchasing power of money and thereby aggravate the problem'.

Now this statement seems to me to embody a very dubious proposition indeed. A business concern surely charges what the market will bear in free competitive conditions. In these circumstances it will, if it is possible, cover the increased replacement cost of assets in its selling prices. I shall return to this aspect later. As to the problem being aggravated thereby, I have always been told that a rise in prices is a symptom of inflation not a cause of it.

The problem of 'inflation accounting' may be presented in different ways but it essentially consists in the claim that there should be provided out of the profit of a business the sums needed to preserve the real capital employed, regardless of any change in the purchasing power of the monetary unit. For practical reasons adjustment is usually limited to stocks and fixed assets. It is in respect of these physical assets that accounting remedies are available and have been applied by certain companies for a number of years.

Sometimes fixed assets have been revalued in the books and depreciation provided on the new values; more often perhaps a calculation has been made annually on an estimated basis of depreciation upon

¹ See *The Accountant*, dated May 31st, 1952, at page 577.

fixed assets revalued at current prices. It is not often that any attempt is made to catch up previous deficiencies in depreciation on the basis of current values; sometimes, indeed, this is argued to be superfluous.

Similar adjustments are made to stock-in-trade which has been inflated in value. Alternatively, such stocks may be valued on a 'base stock' or on the LIFO (last-in-first-out) method.

Sometimes these adjustments are made before net profit is struck; sometimes they are shown below the line as appropriations of profit. This, if I may say so, illustrates the confusion in the methods of presenting accounts acceptable under the Companies Act and certainly upsets conventional ideas of accounting on the basis of historic cost.

Important as it may be to demonstrate to shareholders and others the profit which should not be distributed, it is even more important to press the case for a deduction of these sums for income and profits tax purposes. Taxation on business profit is already inordinately high and, if it is also to be paid upon the capital profit produced by the inflated values of assets, its incidence may be fantastic.

All this is perhaps commonplace. It was said by numerous representative bodies to the Tucker Committee and the Royal Commission and, you may say, rejected. But this is not altogether so, as I shall hope to show.

The signatories of the majority report of the Royal Commission, in their first chapter, took as their general premise that

'there will not be any marked decrease or increase in the purchasing power of money in the United Kingdom'.

They also went on to say that if they had thought they were obliged to assume a persistent decline in the purchasing power of money, even if only a slow one, their

'examination of the problem of dealing with the inflationary element in profits which are computed without allowance for the decline would have started on a different basis and might have reached a different conclusion'.

The Commission was perhaps unlucky inasmuch as, even while they were sitting, the retail value of the pound sterling diminished by over 20 per cent and has since fallen still further.

By affecting to ignore the principal post-war fact of economic life, the majority certainly tied their own hands. They did add, however, that it would be absurd to assume complete stability or that there would not be sudden and temporary variations. They thus felt themselves at liberty to prescribe, in Chapter 18 and Appendix II, methods of stock valuation, including modified LIFO and base-stock principles, that would go a long way towards dealing with the problem of inflated values of stock-in-trade.

In addition, the majority expressed the following view on the initial and the investment allowances:

'We do not regard those allowances as being

directly concerned with the problem of business profits in a period of inflation. . . . Their purpose, as we see it, is to stimulate investment in selected kinds of asset by attaching a tax preference to the act of investment.'

Well, of course, they had already decided that there must not be any more inflation but it is difficult to see the investment allowance, at least, as anything but a partial recognition of increased replacement costs.

Both of these aspects are worth examining.

Stock-in-trade

As regards stock-in-trade, there appears to be a deadlock. For many years the Board of Inland Revenue have been trying to impose on the taxpayer their own ideas of how to value stock-in-trade. They still cherish the view that the right way to value stock is at aggregate cost or aggregate market value, whichever is the lower, and this principle was explicitly embodied in the terminal provisions of excess profits tax. In the case of *C.I.R. v. Cock, Russell & Co Ltd* (28 A.T.C. 393; 29 T.C. 387) they unsuccessfully disputed the taxpayer's right to value some of his stock on cost and some on market value on what they termed the 'pick and choose' method. They then proceeded to try to demolish the 'base stock' method as an acceptable method of valuation. After the Second World War most concerns in the cotton industry had been induced by various methods to abandon this traditional method of preserving the value of stocks, but among the few remaining stalwarts was Broadstone Mills Ltd, whose method of valuation was contested by the Revenue (*Patrick v. Broadstone Mills Ltd* (32 A.T.C. 464; 35 T.C. 44)).

In this they were unfortunately successful. What is worse is that, in its judgment, the Court of Appeal confirmed an earlier judgment of the House of Lords in which the following words had been uttered by Lord Porter (*Ryan v. Asia Mills Ltd* (30 A.T.C. 110; 32 T.C. 275)):

'Moreover, what may be prudent accountancy for a company is not necessarily the correct method of ascertaining the proper assessment for income tax.'

However, the Royal Commission majority report rejected the Revenue argument:

'that it is desirable to have one prescribed method of stock valuation for all taxpayers who have assessable business profits, since the use of a single method for everyone is likely to produce the most even-handed justice'.

They therefore rejected the argument that FIFO (first in first out) is the only strictly correct basis.

The FIFO method is, after all, the report indicates, merely a convention and has no particular sanctity; there may be other methods

'which seem better adapted to the circumstances of a business or the commercial conditions of the day . . . or come to be recognized by the trading community and professional accountants'.

In conditions of rising prices or inflation it com-

mented that other assumptions might well be appropriate, for example LIFO.

With that aim in view the majority summarized their view as follows:

'Since no single method of stock valuation should be imposed, a trader should be permitted to adopt any proper method that is suited to his business, subject to safeguards relating to the effect of a change from one method to another.'

In Appendix II they set forth the principles which, in their view, should govern methods of stock valuation. Accordingly, in this appendix we now have a new charter, every word of which deserves to be studied. Who, however, is going to initiate the campaign to implement it? It is not likely to be the Board of Inland Revenue. I was pleased to see that in the memorandum on priorities among the Royal Commission recommendations which the Council of the Institute sent to the Chancellor of the Exchequer, it recommended implementation of the stock valuation proposals.

This is excellent so far as it goes, but I would remind you that the rather discouraging comments of the Council regarding LIFO in their Recommendations X and XV still stand. Unless the Council make it clear that they have modified this attitude their Recommendation is somewhat blunted.

The need for action is clearly shown in the national income statistics where the part of the change in the value of stocks from 1946 to 1956 which arose from increases in the prices at which stocks were valued amounted to no less than £2,800 million. This enormous amount has had to be found by British businesses out of taxed profits simply to maintain the physical volume of their stocks.

The LIFO method must by now be familiar to most of you. It reverses, in effect, the assumption on which FIFO is based. The result is that the costs allotted to the sales of a period reflect, broadly, the prices at which purchases were made during the period. Consequently, the costs carried forward reflect the purchase prices of an earlier period to the extent to which the volume of stock was maintained. It is important to bear in mind that there is no need in operating a LIFO basis to alter accounting records based on historic cost. As stated in Appendix II, the LIFO adjustment can be calculated separately and shown clearly in the accounts in whatever way is considered best.

The LIFO method has been adopted as an accounting convention in the U.S.A. for many years and its use has been permitted for tax purposes since 1939. LIFO accounting does, however, have problems of its own and it seems to me that further study should be given to it by accountants in this country.

Fixed Assets

The method of dealing with inflation in relation to fixed assets has still to be discussed. In this context we are not discussing an academic theory as to how to arrive at 'economic profit' but what practical

method can be used to have some substantial effect for taxation purposes. Up to now, British Governments have met complaints under this head by two expedients:

(a) Accelerated depreciation.

(b) Investment allowances.

Under 'accelerated depreciation' I include not only the initial allowances but the increase of the capital allowances to five-fourths of the percentage rates fixed by the Commissioners. Investment allowances go further than this since they are granted over and above historic cost.

The interesting feature is that the fiction by Governments that they are not granting an allowance for increased replacement cost, becomes increasingly thin. In relation to the investment allowances it seems particularly unconvincing to describe the extra allowance as merely designed to stimulate investment. I suggest, for example, that the increase in the allowance on ships, from 20 to 40 per cent, is really an inadequate recognition of the greatly increased cost of replacing ships.

While these allowances are certainly much better than nothing at all, they hold dangers of their own. The effect of both accelerated depreciation and investment allowances, which are only given when plant is acquired, is that so long as a business is steadily replacing or expanding its plant the evil consequences of inflation on profits (and on liquidity) are masked. The effect of accelerated depreciation is to diminish taxable profits now at the expense of increased taxable profits in the future when replacement or expansion ceases. Does this not hold serious possibilities for the future?

One most significant factor upon which adequate statistics are lacking is how far obsolete plant is still in use in this country. Some very fine new plants have been constructed since the end of the war, but how many of the old ones have been pulled down? This question is a complicated one since it often happens that an old plant may be technically quite efficient whereas a plant more recently built to handle a new process is already obsolete. Dr Barna is now undertaking a study, on behalf of the National Institute of Economic and Social Research, into the age of assets employed in industry and their decline in efficiency, which will, it is hoped, give some valuable information on this neglected subject.

I think that more public criticism should be directed against the accounts of those concerns that do not provide for depreciation on a replacement cost basis. This includes most, but not all, of the nationalized industries. One cannot help fearing that many of the smaller concerns in this country are living in a fool's paradise and that their relative liquidity is partly due to the illusion created by accelerated depreciation. These so-called 'interest-free loans' will at some date have to be repaid and it will be interesting to see then whether industrial assets have been eroded or not. One thing is certain, that the conscience of successive Governments on

this matter is distinctly uneasy, and rightly so. Otherwise they would not have put forth accelerated depreciation and investment allowances as a partial solution.

However, the defect of all these methods goes deeper. It is not true to say that only when a concern comes to replace an item of plant does it need to worry where the funds are coming from; that is a happy-go-lucky mode of planning finance if ever there was one. I would refer to an article in the *National Provincial Bank Review* for August, by Mr P. T. Menzies, Financial Director of Imperial Chemical Industries Ltd, in which he tackles a difficult problem which is often ignored. He emphasizes the urgency not only of writing-off against profit adequate sums to provide for replacement in addition to conventional depreciation, but also of making sure that these write-offs are recovered in prices so far as possible. Prices have to be competitive naturally, but in the last analysis it is in the ability of a business to pass on its cost in its selling price that the core of the problem lies. There are, indeed, several elements that selling prices ought to cover which need disentangling. Mr Menzies mentions these in his article:

- (a) Depreciation based on cost and estimated physical life.
- (b) Inflationary element based on rising cost and applied to (a).
- (c) Arrears of under-provision created by rising costs.
- (d) Obsolescence due to technical discoveries.
- (e) Cost of research into new technical methods.

It is clear that if a business does not fix its selling prices so as to cover all its replacement costs in a time of rising prices, it will never have the gross receipts out of which to perpetuate itself. It will steadily and surely shrink in size.

It is surely proper that the principle which governs the determination of selling prices (subject to competition) should also govern the computation of profit. Not only should depreciation be provided on a replacement cost basis over the period of the asset's use, but it should also be so allowed for taxation purposes. There is no particular difficulty in devising a technique for doing this; it has been done in France and other European countries for many years. To defer allowance until the time comes to replace the asset is, however, totally unscientific.

Weekly Notes

Oppression of a Company's Minority

With reference to the leading article entitled 'Oppression of a company's minority' in our issue of October 12th, we have been asked by the Scottish Co-operative Wholesale Society Ltd to say that the decision of the Court of Session in the action, *Meyer and Lucas v. Scottish Textile and Manufacturing Co Ltd and the Scottish Co-operative Wholesale Society Ltd*, is under appeal to the House of Lords.

Tribute to Professor A. G. Murray

The retirement of Professor A. G. Murray, M.A., C.A., from the Chair of Accounting and Business Method in the University of Edinburgh, and the appointment of Mr D. S. Anderson, C.A., to succeed him, received notice in these columns in the issue of April 6th last.

At their meeting on October 16th, the Senatus Academicus of the University adopted a special minute in acknowledgment of Professor Murray's services during his tenure of the Chair. We feel that his many friends in the profession and particularly his former pupils, would welcome an opportunity of seeing the minute; we therefore have pleasure in reproducing it in full:

SPECIAL MINUTE

'Adam George Murray, M.A., C.A., retired on 30th September, 1957, from the Chair of Accounting and Business Method which he had occupied since 1945. His career as a teacher began in 1919 with lectures in the Heriot-Watt College and tutorial classes for C.A. apprentices conducted in association with his late partner, John E. Dalgliesh. These continued through the 1920s and 1930s and it became clear that the

natural culmination of his career would be as the Edinburgh Professor of Accounting. He was eagerly sought after in the profession where he had achieved an enviable reputation as both practitioner and teacher. He was a living rebuttal of Shaw's acid claim that "those who can, do; and those who can't, teach". He could, he *did*, and he taught.

Moreover, he taught with acceptance and with marked success. He brought to his teaching a complete mastery of his subject, an amazingly wide and varied practical experience, an unusual energy and an invaluable sense of humour. He was impatient with insincerity and idleness; he worked hard himself and saw no reason why his students should not do the same. Unpopular as this discipline was with some, many of his students were grateful in later years for the training it gave them to meet the pressures of professional and business life. He was jealous of academic standards to a degree which gave him the reputation of being a harsh taskmaster. However, behind the sometimes forbidding exterior there was a genuine personal interest in his students and a practical sympathy and understanding of the difficulties of the weaker brethren.

Professor Murray's range of activities was unusually wide. He carried on his University work amid the manifold demands of a large and busy practice. He was a director of several important companies and a much sought after consultant. For no less than thirty years he was editor of the *Accountants' Magazine*, the journal of the Chartered Accountants of Scotland. There, as elsewhere, his writing was provocative and controversial. He did not court easy popularity and, if he made enemies, it is certain that he lost no sleep as a consequence. On the other hand, his friends and admirers were legion and perhaps it is a measure of the man that they were those who knew him best.

'After twelve years of hard work in his University post, Professor Murray is entitled to some respite from those pressures which in his final editorial in the *Accountants' Magazine* he referred to as the reasons for his resignation - "sudden rebellion against working from 8.30 to 1.30 a.m., distaste for the routine of the so-quickly recurring months, the tyranny of the clock". The Senatus, in taking leave of Professor Murray, wish him good health and many happy years of leisure in which to do all those things which pressure of time has for so long disallowed.'

We know readers will join with us in wishing Professor Murray a long and happy retirement.

The Stock Exchange and You

The Visitors' Gallery of the Stock Exchange was opened four years ago this month and the success of the innovation was immediately assured. During this period the public have responded well to the opportunity to watch the Stock Exchange at work and some 255,000 visitors have passed through the Gallery.

In addition to casual visitors, there is a constant flow of parties from industry, schools and organizations of all kinds and in view of the increasing number of visitors, the Stock Exchange has published a new leaflet which explains simply and lucidly the workings of the 'House'. While the questions answered are elementary, and are intended for the financial layman, there are several points of custom and tradition explained, of which many professional men - and laymen - will be unaware.

The manner in which the Stock Exchange is closely involved in the daily life of the country is emphasized by the fact that two adults in three in Britain are indirect investors, since banks, insurance companies, trade unions and similar organizations invest their money through the facilities of the 'House'.

The leaflet, entitled *The Stock Exchange and You*, is available at the Stock Exchange and is free of charge.

Industrial Assurance

The annual report for 1956 of the Industrial Assurance Commissioner, published on Monday,¹ deals with the industrial assurance business transacted by 14 companies and 100 collecting societies during the year.

Industrial assurance business comprises life assurance policies on which the premiums are payable at intervals of less than two months and are received by collectors who make house-to-house visits for the purpose.

For the fifth successive year the number of new policies effected during the year showed a decrease, from 5,781,000 in 1955 to 5,672,000 in 1956. The sums assured by new business, however, reached a new record figure of £315,533,000.

Premium income for the year again increased, from £155,960,000 to £163,799,000. A total of £37,729,000 was paid out on death claims and £42,724,000 on claims on maturity, both being record figures.

¹ H.M.S.O. 3s 6d net.

Higher Gold Reserves

The sterling area's gold and dollar reserves increased during October for the first time since June of this year. The net inflow was \$126 million. This figure is struck after allowing for the benefit of a \$250 million loan from the United States Export-Import Bank and after meeting an E.P.U. liability of \$133 million. The net increase in the reserves is the highest since May 1954 and is considered a satisfactory outcome on the month so far as official reactions are concerned.

Since October is not usually a very favourable month for sterling so far as commercial transactions are concerned, most of the improvement must be put down to 'bear' covering by speculators. Satisfactory as the figures are, they look modest enough compared with the drop in August and September in the reserves. In those two months the sterling area lost \$517 million. The improvement in October owes much, of course, to the credit drawn on the Export-Import Bank. The second \$250 million can be drawn any time up to the end of February, the whole being repayable over a four and a half-year period.

Trouble over Pay Veto

The decision of the Minister of Health to veto the pay increase for health service workers has raised a sizeable storm. An unfavourable political reaction in some quarters was to be expected and the trade union movement could not be expected to let it pass without fairly harsh criticism. It is obviously a landmark of some sort when a Government department vetoes a Whitley Council recommendation and considerable arguments about the end justifying the means have to be assembled to make it acceptable.

If the Government have chosen this occasion to emphasize that they will not condone indiscriminate wage increases without directly offending a large and powerful union, they have chosen well. It is already clear, however, that their action has raised a certain amount of professional disquiet in the higher ranks of the health service.

The Government have already made it clear that they will not finance wage increases with the taxpayer's money in the case of industries running at a deficit. They have also let it be known to arbitration tribunals that they consider that public opinion is in favour of sterner decisions in wage arbitration. The health workers wage veto, however, is the first specific occasion taken to stop a wage increase. What the Chancellor of the Exchequer has said in the past by implication has been set in a concrete case as a precedent by the Minister of Health. It remains to be seen whether boldness is the right policy for the Government in advance of the big wage claims coming forward later this year and early next year or whether this last move has made events move rather more rapidly than the Government would have wished.



THE SOCIETY OF INCORPORATED ACCOUNTANTS

Valedictory Message

From the President, Sir RICHARD YEABSLEY, C.B.E., F.C.A., F.S.A.A.

THE passing of the resolution placing the Society in liquidation brings to an end for all practical purposes the life of a body born seventy-two years ago. Judged by human standards it had reached a ripe old age but judged by some other professions it was but a youngster. However, let us reflect on what it achieved and pay tribute to those who founded and fostered it and those who served it.

Counting those who have passed on, there have probably been some 14,000 members of the Society, many of whom might not otherwise have joined the profession of which we are so proud and in which I think we may claim, in all humility, to have played no small part in preserving its high ideals of integrity, fairness and service.

We too have played our part in the development of the profession, widening its sphere of influence and its contribution in commerce. With this increase in the scope of our work has come greater responsibility, both individually and collectively. It has been through the courage and wisdom of our leaders that we have recognized our duties and discharged them so well and we, the present generation, have by their example and precepts achieved such a high standard in the profession that integration was the natural outcome.

Not unnaturally, we are proud of our achievements but it is with no sense of magniloquent egotism nor the humility of Uriah Heep that we face the future. We are conscious of the great traditions and high standing of the Institutes we are joining and the justifiable pride therein of their members, and members of the Society will, I have no doubt, play their part in guarding and enhancing these treasures.

Thus we look to the future with quiet confidence that by learning, experience and wisdom, coupled with right conduct, we can play our part in the service to the community to which we belong and which it is our bounden duty to give.

However, before closing this chapter in the history and development of the profession, let us remember those who over the years have contributed so much to the Society—there are the past presidents, some of whom are still with us and in the fullest sense adorn our Council, then the Council members who have in that way and by substantial work on various standing and *ad hoc* committees given much of their valuable time and experience, then the officers of the branches and district societies, and lastly the secretariat and staff who by their zeal, kindness and devotion to duty have served us so well.

It would not be difficult to mention many by name and recount their individual contributions but on an occasion such as this I am sure they would not wish it, but there are two names that will ever be associated with the Society and to whom I should refer in these valedictory remarks.

Sir James Martin was one of the original members of the Society, and upon its incorporation in 1885 was made a member of the Council. In the same year he was elected the Society's first secretary, a post which he held for thirty-three years until his resignation in 1919. He was president of the Society in 1922-23 and again in 1935, the occasion of our fiftieth anniversary. He was succeeded as secretary by Mr A. A. Garrett who held that office for thirty years; thus over a period of sixty-three years the Society had only two secretaries—during which period its strength had risen to 8,000 members. Mr Garrett's great work, particularly in connection with the branches and district societies, will long be remembered. This kindly soul has won our hearts and to him, his noble predecessor and worthy successor, who has worked indefatigably in regard to integration, all members would wish to express their deep appreciation for all they have done for us.





A Message to Members of THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

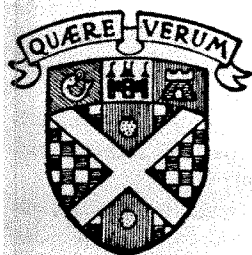
From the President, Mr W. H. LAWSON, C.B.E., B.A., F.C.A.

THE integration scheme is now an accomplished fact. It became effective on November 2nd, 1957. A communication to members of the Institute is now being issued and at the same time The Society of Incorporated Accountants is sending a communication to its members.

The aim of the Council of the Institute is to implement the scheme as smoothly and quickly as possible, notwithstanding the enormous amount of administrative work which is involved.

I realize that all members of the Society must have some regrets at its liquidation after so many years of honourable existence and that there are some who were unable to support the scheme. Nevertheless, I feel confident that when members of the Society have been admitted to membership of the Institute they will give to the Institute the same support and loyalty that they have previously given to the Society.

On behalf of the Council I welcome to the Institute the members of the Society who will be joining the Institute under the scheme. It is my earnest hope that the present members of the Institute, including those who were unable to support the scheme, will do all they can to help these new members to become absorbed into the life and activities of the Institute as quickly as possible.



A Message to Members of THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

From the President, Mr JAMES T. DOWLING, C.A.

AS a result of close collaboration among the three Chartered Institutes and The Society of Incorporated Accountants, the three integration schemes became effective on November 2nd, 1957, and I am confident that all members of the Scottish Institute will join with me in welcoming into our fellowship the Incorporated Accountants who will be joining us and the articulated clerks and bye-law candidates who will be becoming Chartered Accountant apprentices.

There must be regret at the passing of the Society, but its members are not lost to the profession: in their new surroundings they will make the same valuable contribution to the work of the profession that they have made in the past.

The Councils of the three Chartered Institutes in the British Isles are to set up a Joint Standing Committee to co-ordinate policy on matters arising in connection with the administration of the schemes and to consider any matters of common interest which may be referred to it by any of the three Institutes. I believe that the setting up of this committee will be a most important development in the history of our profession and I look forward to the closer collaboration between the three bodies on matters of common interest that should flow from it.



STEPS IN THE EVOLUTION OF THE PROFESSION IN THE UNITED KINGDOM

1853—January 31st. The Society of Accountants in Edinburgh formed.

October 3rd. The Institute of Accountants and Actuaries in Glasgow formed.

1854—October 23rd. Royal Charter of Incorporation granted to The Society of Accountants in Edinburgh, shortly after which the Society adopted the distinctive title for its members of 'Chartered Accountant', with the abbreviation 'C.A.'.

1855—March 15th. Royal Charter granted to The Institute of Accountants and Actuaries in Glasgow.

1866—The Society of Accountants in Aberdeen formed.

1867—March 18th. Royal Charter granted to The Society of Accountants in Aberdeen.

1870—January 25th. Incorporated Society of Liverpool Accountants formed.

November 29th. Institute of Accountants formed in London.

1871—February 6th. Manchester Institute of Accountants formed.

1873—January 11th. The Society of Accountants in England formed.

1874—October 1st. *The Accountant* commenced publication.

1877—March 14th. Sheffield Institute of Accountants formed.

1878—November 29th. Council of the Institute of Accountants announced in the *London Gazette* that they were about to apply to Parliament for leave to introduce a Bill incorporating the Institute.

1879—Bill introduced in Parliament, but a petition for a Charter of Incorporation was substituted as being more in accordance with precedent.

1880—March 24th. Royal Charter granted to The Institute of Chartered Accountants in England and Wales into which were incorporated the other English provincial societies. (Premises at 3 Copthall Buildings, London, E.C.)

1882—Birmingham Chartered Accountant Students' Society formed.

1883—Formation of:
Manchester Chartered Accountants' Students' Society;
The Chartered Accountant Students' Society of London;
Liverpool Chartered Accountant Students' Association;
Bristol Chartered Accountant Students' Society;
Sheffield Chartered Accountant Students' Society.

1885—The Corporate Treasurers' and Accountants' Institute formed.

February. Inception meeting of The Society of Accountants and Auditors.

December 29th. Licence obtained from Board of Trade for incorporation under the title of 'The Society of Incorporated Accountants and Auditors.'

1886—First autumn provincial meeting of The Institute of Chartered Accountants in England and Wales held in Manchester.

1888—May 14th. The Institute of Chartered Accountants in Ireland incorporated by Royal Charter.

The Institute of Chartered Accountants in England and Wales: agreement was made to take on lease for 999 years a plot of land in Colman Street Buildings (now Moorgate Place).

1891—Formation in Glasgow of the Corporation of Accountants.

1892—Formation of a General Examining Board of the Chartered Accountants of Scotland.

1895—Bill for the establishment of a register and the protection of the title 'Chartered Accountant' introduced into Parliament.

1898—Formation of The Association of Scottish Chartered Accountants in London.

1898—New building (in Moorgate Place) of The Institute of Chartered Accountants in England and Wales formally opened.

1899—Agreement entered into between The Society of Incorporated Accountants and Auditors and The Scottish Institute of Accountants whereby the latter body became the Scottish branch of the Society.

1900—Branch of The Society of Incorporated Accountants and Auditors formed in Ireland.

1901—The Corporate Treasurers' and Accountants' Institute incorporated as 'The Institute of Municipal Treasurers and Accountants'.

1902—Agreement entered into between The Society of Incorporated Accountants and Auditors and The Institute of Accountants in the South African Republic whereby that Institute became the Transvaal branch of the Society.

1903—Institute of Certified Public Accountants formed.

1905—The London Association of Accountants formed. The Central Association of Accountants formed.

1915—Joint Committee of Councils of the Edinburgh Society, the Glasgow Institute and the Aberdeen Society set up to deal with questions of mutual concern and to further and protect the interests of the chartered accountants' societies of Scotland.

1919—The Institute of Cost and Works Accountants formed.

1933—Institute of Certified Public Accountants absorbs The Central Association of Accountants.

1939—The London Association of Accountants absorbs the Corporation of Accountants and the

name of the new body changed to 'The Association of Certified and Corporate Accountants'.

1941 - The Association of Certified and Corporate Accountants absorbs the Institute of Certified Public Accountants.

1945 - Joint Committee of Councils set up a sub-committee to consider the advisability of merging the three Scottish Societies.

1951 - A Supplementary Royal Charter changed the name of the Edinburgh Society, as the oldest body to 'The Institute of Chartered Accountants of Scotland' and provided that it should absorb the membership of The Institute of Accountants and Actuaries in Glasgow and The Society of Accountants in Aberdeen.

1954 - Centenary of The Institute of Chartered Accountants of Scotland.

1956 - December 22nd. Details of schemes for the integration of The Society of Incorporated Accountants with the three Chartered Institutes announced.

1957 - February 19th. Integration scheme approved at a special meeting of members of The Institute of Chartered Accountants in England and Wales in the Royal Festival Hall, London, subject to poll of full membership.

March 27th. Result of poll of membership of the English Institute announced, confirming Royal Festival Hall decision on integration by 10,242 votes to 4,340.

March 27th. Integration scheme approved at a special meeting of members of Scottish Institute, subject to a poll of the full membership.

March 28th. Integration scheme approved at a

special meeting of members of The Institute of Chartered Accountants in Ireland, subject to a poll of the full membership.

April 26th. Result of poll of membership of the Scottish Institute announced, approving the integration scheme by 1,822 votes to 323.

May 30th. Result of poll of membership of the Irish Institute announced, approving the integration scheme by 456 votes to 93.

June 19th. Integration schemes approved by members of The Society of Incorporated Accountants at a meeting in the Royal Festival Hall, London, subject to a poll of the full membership.

August 2nd. Result of poll of membership of The Society of Incorporated Accountants announced, approving the integration schemes by 8,747 votes to 1,327.

August 23rd. Integration: H.M. Privy Council approved an addition to the Supplemental Royal Charter of The Institute of Chartered Accountants in England and Wales and to amendments in the Institute's bye-laws.

H.M. Privy Council approved an addition to the Scottish Institute's rules.

October. Privy Council of Northern Ireland and the Government of the Republic of Ireland approved alterations in the bye-laws of the Irish Institute.

November 1st. Extraordinary general meeting of The Society of Incorporated Accountants held at which the Society was placed into voluntary liquidation.

November 2nd. Integration of The Society of Incorporated Accountants within the three Chartered Institutes became effective.

THE SOCIETY'S WINDING-UP MEETING INTEGRATION NOW EFFECTIVE

The extraordinary general meeting of The Society of Incorporated Accountants, called to approve a special resolution placing the Society in voluntary liquidation, was held at Incorporated Accountants' Hall, London, WC2, on Friday afternoon, November 1st. About 270 members attended and the resolution was passed by the requisite three-fourths majority, the result of the voting being 225 in favour and 42 against.

Speech by the President

Addressing the meeting, the President, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., said:

The circumstances in which we meet today do not call for a long speech, but I want to explain the position we have now reached in regard to integration.

The special resolution approving the schemes was duly passed by members of the Society by the requisite three-fourths majority on the poll taken following the extraordinary general meeting held on June 19th.

On August 23rd the necessary alterations to the regulations of the English and Scottish Institutes

were approved by the Privy Council. On October 18th approval of the necessary amendment of the bye-laws of the Irish Institute was given by the Privy Council in Northern Ireland, and approval was given by the Government of the Republic of Ireland on October 22nd.

Thus all that remains to be done is the passing of the resolution now before you to place the Society in voluntary liquidation and to transfer the net assets to the English Institute which will make appropriate payments in accordance with the schemes to the Scottish and Irish Institutes in respect of members joining those Institutes. This resolution will be proposed as a special resolution and to be effective it must therefore be passed by a three-fourths majority of members voting.

All three Institutes desire that the schemes should become effective as soon as possible after the passing of this resolution. To this end the Councils of the Society and of the three Institutes have already agreed that if the resolution is duly passed today the schemes shall become effective tomorrow, November 2nd, 1957. In that event each member would receive at an early date a communication giving information about

the procedure for applying for membership of the appropriate Institute.

The schemes provide for ten seats on the Council of the English Institute to be filled by members of the Council of the Society and for four seats on the Council of the Irish Institute to be filled by four members of the Society resident in Ireland.

The ten members appointed to serve as members of the Council of the English Institute are: Mr John Ainsworth, Mr Edward Baldry, Mr Charles Percival Barrowcliff, Mr Leonard Cecil Hawkins, Mr James Stanley Heaton, Mr Hugh Oliver Johnson, Mr Harold Leslie Layton, Mr Bertram Nelson, Mr Frank Edward Price and myself.

The four members appointed to serve on the Council of the Irish Institute are Mr Mervyn Bell, Mr Robert Bell, Mr John Love and Mr Robert John Neely.

The Resolution

The terms of the resolution do not call for any comment. They are quite clear and give final effect to the decision of members on integration. I therefore now propose as a special resolution:

That:

(A) The Society be wound up voluntarily and that James Atkinson Allen, F.S.A.A., of 15 Hanover Square, London, W1, and Ian Archibald Forbes Craig, of Furzedown, Limpsfield, Surrey, be and they are hereby appointed Joint Liquidators for the purposes of such voluntary winding-up.

(B) Notwithstanding the winding-up of the Society the continuance of the powers of the Council is hereby sanctioned to enable the Council so far as may be necessary:

(i) To continue to register articled clerks and bye-law candidates.

(ii) To conduct examinations.

(iii) To admit further members to the Society.

(iv) To exercise its disciplinary powers.

(v) To agree the dates when the Schemes of Integration dated December 5th, 1956, and made between The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland and The Institute of Chartered Accountants in Ireland and the Society shall become effective.

(vi) To perform any other functions required by any of the said Schemes to be performed by the Council of the Society.

(vii) To give any consents or exercise any powers which the Society can give or which are vested in the Society under the Trust Deed and Rules constituting the Society's Staff Superannuation Scheme provided that the giving of any such consent or the exercise of any such power shall not without the consent of the Joint Liquidators involve the Society in any expenditure.

(C) Such property (including such rights as the Society can transfer to grant and withhold the designation 'Incorporated Accountant' and the use of the designatory letters 'F.S.A.A.' and 'A.S.A.A.') as upon the winding-up or dissolution of the Society remains after the satisfaction of its debts and liabilities be transferred to The Institute of Chartered Accountants in England and Wales, and that the Joint Liquidators be and they are hereby authorized to execute and do all such documents, acts and things as may be necessary or desirable to carry this provision into effect.

(D) The Joint Liquidators be and they are hereby authorized to concur with The Institute of Chartered Accountants in England and Wales and any other necessary parties in the execution and delivery of an assignment in such form and by such parties as the Councils of the

said Institute, The Institute of Chartered Accountants of Scotland and the Society may agree, vesting in The Institute of Chartered Accountants of Scotland all such rights as the Society and The Institute of Chartered Accountants in England and Wales may be able thereby to transfer in the name 'Scottish Institute of Accountants' and in the designation 'Fellow of the Scottish Institute of Accountants' and in the designatory letters 'F.S.I.A.'.

I ask the Vice-President to second that proposition.

THE VICE-PRESIDENT: I have pleasure in seconding that proposition, ladies and gentlemen.

DISCUSSION

THE PRESIDENT: The meeting is now open for discussion.

Mr B. V. PIGGOTT (Ipswich): Mr Chairman, ladies and gentlemen, my name is Piggott. I am an accountant in the public service from Ipswich. The special resolution which we have before us this afternoon proposes to place in liquidation The Society of Incorporated Accountants for the purpose of implementing the schemes of integration with the Institutes of Chartered Accountants in England and Wales, Scotland, Ireland.

At the previous extraordinary general meeting, which was held on June 19th to consider the integration schemes, I explained my objections to certain principles of the schemes which affect unfairly 2,000 public service and overseas members of the Society. I do not propose to repeat these arguments today as you are no doubt well aware of them. It is sufficient to state that we object strongly to the proposal to create an artificial distinction between members, so that one out of every five of the Society's members appears to be regarded as in some way unworthy of full membership of the Chartered Institute. This minority is being forced to accept an apparently inferior and dying qualification.

While we are aware that the integration schemes have been approved by the required three-fourths majority, I and many of my colleagues cannot support the proposal to wind up the Society under these terms. Further, we are not content merely to abstain from voting, but we must express clearly our sincere conviction that *this* liquidation should not take place. We are not satisfied with the terms offered. We must place on record that we do not approve of the resolution before the meeting by voting against it.

Nevertheless, it is probable that the proposers of the special resolution will obtain the three-fourths majority which they require and I should like for a moment to look ahead to the position after integration is likely to have taken place. The majority of my colleagues will, I believe, join the Chartered Institute. Those that join will no doubt take part in the activities of the Institute and co-operate with the members in practice to work for the advancement of the accountancy profession. We consider that a mistake has been made by insisting on the division of members of the Society into two unequal classes and it is hoped that in the not too distant future we shall find a change of heart on the part of the Council of the Institute, so that all are restored to their previous parity of membership.

We must, however, come back to the special resolution which is before the meeting and on which a decision is required today. I am asking all members in the minority class to join with me in voting against this resolution to place on permanent record our dis-

approval of liquidation on the basis proposed. (Applause.)

THE PRESIDENT: Thank you. Would any other member care to speak? (After a pause.) There appears to be no one else who would care to speak. I will now therefore formally put the resolution.

The result of the voting was as follows:

For the resolution	225
Against the resolution	42

THE PRESIDENT: I declare the resolution passed as a special resolution by the requisite majority. (Applause.)

The President then made a short valedictory speech which, at his express request, we have pleasure in featuring on another page.

Tribute to the President

MR E. CASSLETON ELLIOTT: Ladies and gentlemen, this is a momentous occasion. I have never seen this Hall filled to capacity before. This is a tribute to our President and chairman. I would just like to tell you that I saw him before this meeting, when he presided at our Council meeting this morning, since when he has not left the building. He is suffering, I hope only slightly, from Asian influenza. He intended – despite the objections of his wife – to take charge of this meeting, and I think he has done so admirably. (Hear hear.) We are, therefore, very much indebted to him for coming here today.

I do not want to make a valedictory address so far as he is concerned, but as one of the senior Past Presidents, I know that we are very much indebted to him for the past eighteen months' work which he has done so keenly, so energetically, and so cleverly. (Applause.) He has had quite a lot of opposition to contend with, but he is a man who likes opposition when he knows his own mind, as he did on this occasion, that integration should go through.

Sir Richard Yeabsley, we are very much indebted to you. We hope that you will carry out your wife's orders when you return home, go to bed and take those aspirins which are so necessary, and renew your

strength quickly. We are very grateful to you. I ask you all to give him a vote of thanks by acclamation.

(The vote of thanks was carried by acclamation.)

THE PRESIDENT: Mr Cassleton Elliott, ladies and gentlemen, thank you very much indeed. As I said to my colleagues this morning, I joined the Society, as you all well know, a long time ago, in 1923. It was my first love: it has always been my love. What I have done has been a labour of love. And now, if I may, as your chief servant, I will say my *nunc dimittis*: 'Now lettest thou thy servant depart in peace'. Thank you. (Applause.)

I declare the meeting closed, and thank you very much for your attendance.

MEETING OF OPPOSITION MEMBERS

Following the Society's extraordinary general meeting about forty of the members who opposed the integration schemes met to discuss their future policy.

It was agreed to continue the existing informal association to watch the professional status of Incorporated Accountant members of The Institute of Chartered Accountants in England and Wales with the object of 'restoring parity of membership with their former colleagues who are now to become "Chartered Accountants"'. The members decided that this would be best achieved by taking up 'Incorporated Accountant' membership of the Institute and co-operating in the activities of the Institute. Their colleagues in the public service and overseas were recommended accordingly.

An initial committee of ten was formed with power to co-opt additional members so that all branches of the public service and, if possible, overseas members are represented.

Various approaches to the matter were discussed and referred to the committee for detailed consideration. The committee was authorized 'to take all reasonable steps to secure the object of the informal association'.

Reviews

Taxation Key to Income Tax and Surtax

Finance Act Edition, 1957

edited by Ronald Staples

(Taxation Publishing Co Ltd, London 10s net, 10s 5d post free.)

The keynote of this well-known publication is rapidity, both in its availability so soon after the Finance Act, 1957, became law, and in the ease with which the reader can turn up a point by availing himself of the ingenious automatic thumb index. The new provisions about personal allowances have been duly incorporated in an easily assimilable form while the changes wrought by *Gatehouse v. Vise* and Section 18 of the Finance Act, 1957, have been very briefly summarized. Overseas trade corporations also find their place in the new edition, although naturally a full exposition is not to be expected.

The Interpretation of Accounts

(Stamp-Martin Papers)

by F. SEWELL BRAY, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting.

(Oxford University Press, 30s net.)

From time to time during the past four years, the accounting calendar has been enriched by a polished lecture from the Stamp-Martin Professor of Accounting. The main recurring theme of his discourses has been the necessity to evolve an accounting structure which would satisfy legal and taxation requirements and, at the same time, produce the varying information demanded by company managements and by economists. This, in the light of the divergence of current accounting and economic opinions, is a tall order but Professor Sewell Bray has constantly striven to design and present accounts of these dimensions which would also reflect, when required,

the aggregate activities of large cross-sections of the community such as entire industries or Government departments.

Although most of his addresses were given under academic auspices, in none of them has he lost sight of the fact that accounting is a practical subject 'indispensable to civilized society'; now that they are assembled within the covers of one book, the magnitude of his achievement may be more adequately appreciated. The first part consisted of his inaugural lecture as Stamp-Martin Professor of Accounting – as accurate an appraisal of present-day accounting developments as exists – his series of four research lectures on accounting dynamics and three other addresses on relevant themes. The second part contains papers on the nature and purpose of direct taxation and on auditing theory and concludes with a formal review of social accounting. Individually, these lectures shinningly demonstrate Professor Sewell Bray's belief that there is a place for scholarship and learning in the accountancy profession. Collectively, they form one of the most original and stimulating books on accounting philosophy so far published.

Register of Defunct and Other Companies, 1957

(Thomas Skinner & Co (Publishers) Ltd, London. £1 10s including postage.)

This *Register* records the fate of about 22,000 companies which formerly appeared in *The Stock Exchange Official Year-Book*. The new edition gives the final particulars of about 150 additional companies whose liquidation has been completed. The details of payments made to former holders of securities in the nationalized industries form one of the most useful features of the book. The *Register* is unrivalled in its usefulness in dealing with deceased estates and tracing old certificates no longer known on the markets.

The Stock Exchange Official Year-Book, 1957, Volume II

(Thomas Skinner & Co (Publishers) Ltd, London. Volumes I and II £8 5s, including postage.)

Volume II of *The Stock Exchange Official Year-Book* completes the 1957 edition of this indispensable work of reference to securities quoted on the London and associated stock exchanges.

The new companies added to the 1957 edition number about sixty and Volume II, which is devoted to the commercial and industrial section of stocks and shares, gives full particulars of more than 6,000 securities. This volume also contains the combined index of the whole 1957 edition as well as the classified list of quoted commercial companies under their various trade headings and the list of Johannesburg securities in which dealings are permitted in London. The number of entries in the combined index runs into many thousands as it gives reference

to hundreds of controlled or subsidiary companies which are referred to in the particulars of their parent companies.

The total editorial pages of both volumes of this well-produced and valuable guide now number 3,578, including a short supplement of information received too late to be classified.

Digital Computer Programming

by D. D. McCracken

(John Wiley & Sons Inc, New York. Chapman & Hall Ltd, London. 62s net.)

With the growing importance and increasing use of electronic data processing, the ability to program a computer becomes a most useful weapon in the accountant's armoury. This skill of programming is, under present conditions, intimately related to the machine that is being used, but the characteristics of computers, in terms of programming, have been drawing closer together with their development for commercial use. It is in fact possible to go a long way to codify computer programming in general terms, and this has been done by Dr McCracken for an idealized machine.

The book forms a very sound basis, either for the articulated clerk who is tackling the subject formally, or for his professional elder brother who realizes that his professional armoury is not complete unless he is prepared to discuss the potentials of computers analytically and critically.

With study of this book, a reasonably intelligent person, without any knowledge of higher mathematics will know how to draw up instructions for a typical machine in the elementary operations of arithmetic, and to go from there to grouping, comparing and classifying and many more refined accounting procedures. McCracken may well become a standard handbook.

RECENT PUBLICATIONS

PROMOTION AND PAY FOR EXECUTIVES, by George Copeman, PH.D. x+216 pp. 8½×5½. 18s net. Business Publications Ltd, London.

BUSINESS BOOK-KEEPING, by John Routley, 5th edition. x+366 pp. 7½×5. 9s 6d net. Sir Isaac Pitman & Sons Ltd, London.

THE PRINCIPLES OF AUDITING, a practical manual for students and practitioners, 12th edition, by F. Clive de Paula, T.D., F.C.A., F.C.W.A. xvii+382 pp. 10×6. 30s net. Sir Isaac Pitman & Sons Ltd, London.

THE RENT ACT 1957, by Robert Steel, B.Sc.(EST.MAN.), Barrister-at-Law. xii+164 pp. 8½×5½. Non-members, 15s net. The Royal Institution of Chartered Surveyors, 12 Great George Street, Westminster, SW1.

THE RENT ACTS, 1920-1927, by Norman C. Abbey. xxiii+368 pp. 8½×5½. 42s net. Eyre & Spottiswoode (Publishers) Ltd, London.

THE ELEMENTS OF INCOME TAX LAW, by C. N. Beattie, LL.B., Barrister-at-Law, 3rd edition. xxviii+223 pp. 8½×5½. 27s 6d net. Sweet & Maxwell Ltd, London.

TAX CASES: reported under the direction of the Board of Inland Revenue. Vol. 37, Part 1. 1-68 pp. 3s net. H.M.S.O., London.

PLAN COMPTABLE GÉNÉRAL. Conseil National de la Comptabilité. 275 pp. 10½×8. Imprimerie Nationale, Paris.

Finance and Commerce

The Launching of 'Sputnik II' has served to underline the 'political' as distinct from the 'economic' anxiety in the stock-markets. Prices have fallen away further in all sections. There is little justification for an early rally.

Meaning of Profit

This week's reprint is taken from the accounts of Qualcast Ltd whose business has grown far beyond lawn-mowers into an important section of the iron and steel foundry and die castings industry. Its chairman, Mr V. Jobson, is a strong believer in profits as the way to progress. 'The greatest crime a company can commit against its employees is to fail to make profits' says a footnote to the balance sheet. At the foot of each page in the report and accounts, there is an article of the Jobson creed, such as: 'The man who produces the best for the least will win the market'; or, 'No system other than free production and exchange can provide the greatest good for the greatest number'.

Mr Jobson, in his review, deals with 'the mistaken belief that profits are a payment to people, as wages are a payment to people'. While the word 'profits' has various meanings, it can never mean in company accounts any kind of money that an individual receives. Dividends are usually only a small proportion of a company's profits which are 'utilized mainly in the cost of machinery and other basic equipment of industry'.

Taxation Weight

In his review of the business, Mr Jobson attributes the fall in profits to four main causes: foundry raw materials greatly increased in price, particularly pig iron; together, the foundry differential and engineering wage awards increased costs considerably; the recession in the automobile trade cut back foundry output very severely; and the engineering strike caused the close-down of two and a half factories.

A table of appropriations emphasizes the fact that the greater part of profits goes in taxation. Direct taxation, Mr Jobson points out, takes 12s 2d out of every £1 earned by the company, more than double the net amount paid to shareholders and equal to 1s 10d of every £1 received for the company's products.

Add to this such items, he continues, as purchase tax, P.A.Y.E., rates, National Insurance, etc., and you will see the frightening manner in which costs are increased by taxation. And yet some people, he adds, preach a doctrine that profits 'should be abolished. If they were, who would pay these taxes'?

1,000 Guinea Question

Most of the time at the first annual meeting of Rael-Brook Holdings Ltd (whose accounts we reprinted on October 26th), was spent in discussing the auditors'

fee. It was an unusual meeting altogether; more of a friendly gathering than a formal occasion, probably due to the fact that employees were encouraged to take a financial interest in the business when the shares were marketed.

However, one shareholder felt that a thousand guineas for the auditors was rather large. Other, and even bigger, companies managed to get their accounts audited for less; moreover, he thought, the matter was one on which shareholders should be consulted as they were at other company meetings. There was no mention of the auditors at all in the stated purpose of the meeting.

Mr Harry Rael-Brook, chairman and managing director, replied. It might be, he said, that he could have got cheaper accountants; but he was more than satisfied with the service given. The firm who held the audit were the company's financial advisers as well as auditors, and when there was a question of taking over some other business in the course of the board's expansion plans, they were the investigators.

Embarrassing Position

Mr Rael-Brook was rather surprised, in fact, that shareholders should want to question the board's buying of these services. Would they question the account with the company's boxmakers or the amount paid for cloth?—a penny a yard on cloth could mean thousands of pounds.

It might be, as a shareholder had said, that there was a large element of formality in putting the auditors' remuneration up for the approval of shareholders who in 99.9 per cent of cases endorsed their board's action. But it could put the auditors and himself in a very embarrassing position.

The chairman was asked whether the auditors would be prepared to fix a fee for the audit and to make additional work the subject of a separate charge. The auditors signified their willingness. But the chairman still had his doubts about the whole thing. He still felt the board should be trusted to buy the services of accountants as they bought all the other goods and services used by the company in the course of its business. But he promised that the board would consider the matter, and there it was left. Which only shows what one must be prepared to face when a business built up by strong private enterprise is turned into a public company with a body of questioning shareholders.

Money Market

Bidding at £98 17s 1d for the sixty-three-day bills on November 1st, the market received an 86 per cent allotment with the average rate at £6 12s 9.02d. The average rate for ninety-one-day bills was £6 11s 10.53d the market bidding at £98 7s 1d. This week's offer is £40 million of the shorter and £230 million of the longer maturities.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Cheques Act, 1957

SIR, — It is obvious that the Cheques Act, 1957, is already proving a boon to many accounts departments struggling in a sea of paper. I feel, however, that there are many other directions in which an economy in paper work could be effected.

Is it necessary for instance that suppliers should furnish their customers with 'audit' accounts? My own company, which owns a group of newspapers carrying a large amount of classified advertising, receives each month shoals of cards and forms requesting particulars of outstanding balances. Quite often the requests are made by firms who have had one advertisement inserted during the previous twelve months, and who have paid for it long ago. Presumably, however, their auditors insist that these requests must be sent to all clients, no matter how small or casual the account. What a waste of time and postage.

Moreover it seems that a firm has only to spend £2 on advertising for it to come hot-foot asking to be allowed to pay the bill by means of a trader's credit — another form to complete and more postal expense.

May I suggest that accountants should look into these matters more closely, and discourage the haphazard dispatch of such forms. I would also suggest to auditors that the verification of balances by suppliers is out of date, and should be discontinued.

These are only two examples of unnecessary paper work. I have no doubt that others will occur to your readers.

London, N14.

Yours faithfully,
J. C. DOUGLAS, A.C.I.S.

SIR, — The following are the details of a circular letter which I have had printed and which is being issued to supply houses whose accounts are paid by me on behalf of a client.

'Section 3 of the above Act is being widely quoted as a reason for dispensing with receipts and even, in some cases, the return of the monthly statement.

'A paid cheque has *always* been valid evidence of payment and all that the new Act in effect says is that this evidence will not be invalidated in future merely by lack of an endorsement on the paid cheque.

'Whilst a paid cheque continues to be evidence of payment, it is not evidence of what the particular payment was for. It will therefore in all cases be necessary for you to return the monthly statement as the payer's evidence of what he has paid, what discount has been allowed, what corrections were necessary, etc., and this statement, in the interest of both parties, should be returned promptly.

'It should be realized, too, that in the case of sole traders and partnerships where a full double-entry book-keeping system is not in force the receipted

statement is relied upon as part of the book-keeping (in place of a creditors ledger) and is the only document which will readily show the nature and the extent of the liabilities which existed at the balance sheet date.

'Any failure to co-operate in this matter can only result in the enforcement of the legal right to a full and proper receipt.'

I propose to issue further copies of this letter to all those of my clients who do not have a full double-entry book-keeping system in force so that they may be sent out with their own monthly remittances. The payer will rubber-stamp all statements as follows:

'Paid, Date, Cheque No.'

I suggest that unless practising accountants take similar steps they will find it extremely difficult for reliable accounts to be prepared because it will not be practicable to compile a list of the creditors as they were at the client's balance sheet date. Receipted statements which hitherto have been used for this purpose will not be available.

Yours faithfully,
Darlington. G. L. MORTIMER.

Clients' Unlawful Acts

SIR, — I hope it will not be considered impertinent for a non-member of the Institute to comment on the Council's statement published in *The Accountant* of October 12th. My excuse is the importance to all tax practitioners of the issues involved and the absence of comment from within the profession.

I am worried by paragraph (9) of the statement which runs as follows:

'The following paragraphs are intended to relate primarily to circumstances in which a member is satisfied that a client has knowingly defrauded the Inland Revenue. They do not deal with circumstances in which the member considers that there have been mistakes resulting from carelessness or ignorance, but not wilful fraud; such circumstances will not normally give rise to difficulty, because where there has been a genuine mistake a client is not likely to object to appropriate steps being taken to rectify the position. If, however, the client does object and the matter is material, the member should treat it as being wilful fraud.'

Between carelessness or ignorance on the one hand and wilful fraud on the other lies that very important field of culpable neglect or negligence in connection with which the Revenue usually seek penalties under Section 25 (3), Income Tax Act, 1952. Experience suggests that this field covers most cases of incorrect returns or accounts. Many of them are cases in which there is a high degree of culpability, and certainly the pecuniary penalties provided are severe. It is therefore to be expected — and experience bears this out — that in a high proportion of these

cases the client is 'likely to object to appropriate steps being taken to rectify the position'. It would seem to follow from the last sentence of paragraph (9) that the Council considers such cases should be treated as cases of wilful fraud.

So, whereas Parliament has provided penalties which vary in accordance with the degree of guilt involved in the making of the incorrect return, the Council seems to recommend members to apply an entirely different test, viz. the client's willingness or unwillingness, perhaps years afterwards, to rectify the position.

There is already a well-known textbook on back duty which refers to a taxpayer 'who has defrauded the Revenue, even if only through negligence'. Are we now to have a class of taxpayers who are to be treated by their professional advisers as having committed wilful fraud although in fact they have been guilty of nothing worse than carelessness?

My second point relates to advising a client to make a 'complete disclosure'. This is dealt with in the clearest possible terms in paragraphs 11, 19, 20, 21 and 22 of the statement. But in paragraph 54 members are warned against disclosing information which might lead to the prosecution of a client for a misdemeanour. I have nothing to say about paragraph 54, but I suggest that your readers should think very carefully before making, or advising their clients to make, a 'complete disclosure'. An example will illustrate my point:

An accountant discovers that for many years a client has omitted from his income tax returns income from a Post Office Savings Bank account. The client is under a legal obligation to make correct returns and to pay the additional tax in date for ordinary assessment. It will probably be considered that the client is under a moral obligation to pay the additional tax for earlier years and even to pay compound interest on the additional tax (although opinions may vary as to the propriety of an accountant, lawyer or tax consultant advising on matters of morals).

But probably the Revenue authorities will not be content with recovering tax and compound interest: they may seek comparatively heavy penalties. Probably all will agree that it is no part of a practitioner's duty to help the Revenue to impose penalties: on the contrary it is his duty, within the law, to protect his client against penalties, whether of the sort contemplated in paragraph 54 or ordinary pecuniary penalties under the Income Tax Acts.

Let us assume that for years within date there is no evidence of fraud and, owing, e.g. to the client having retired from business, the negligence penalties which could be enforced are quite small. But let us assume also that for years out of date the Post Office books contain evidence which would probably enable the Revenue to establish fraud or wilful default and to impose heavy penalties.

I suggest that in these circumstances the practitioner should advise the client to make an *incomplete* disclosure, i.e. to disclose the amount of the omitted

income but not to produce the Post Office books. Similarly, even in accounts cases I suggest that in some circumstances the client should be advised to disclose the amount of the omitted income but *not* to disclose, except under compulsion, how the income came to be omitted. A man is under a legal obligation to make a correct return of his income, and must accept the burden of proving any assessments excessive; but the onus is upon the Revenue to establish penalties, and no man can be expected to supply the rope for the authorities to hang him.

Surely the rule should be: always advise the client to disclose income; never advise him to disclose facts or documents which might help the Revenue to establish culpability *unless* you consider such disclosure to be in his own interest. In view of the Revenue's powers to enforce disclosure of records etc. (see paragraphs 25-34 of the statement), the terms of the well-known 'White Paper', the full disclosure certificate normally required by the Revenue, and the practical advantages which generally arise from making a full confession, it will in most cases be advantageous to the client to disclose culpability as well as income. But not in all cases; and I suggest the position should always be carefully considered before a 'complete disclosure' is made or recommended.

Of course it may be possible, under cover of 'without prejudice' negotiations, to supply the Revenue authorities with the information which they quite reasonably seek without involving the client in any serious risk.

Yours faithfully,
London, E18.

V. P. GOOK.

'Pestilential Profit'

SIR, - I think all your readers will agree with Mr McAdden (article, November 2nd issue) that it would be most beneficial to the country as a whole if the 'working population' could be convinced that good profits mean good wages, as they are convinced in America.

I would venture to suggest that the best way to bring this about would be to demonstrate by wages policy that it is in fact so (as has been done in America).

There are many employers, both large and small, in this country who have consistently done this, but they do not hit the headlines because they don't have strikes or threats of strikes.

It is the industries where no increase in pay is ever given until demanded by the wage-earners (whatever the profits) which have created the prevalent atmosphere.

Does Mr McAdden really think that accountants, stockbrokers and financial journalists, however profound their wit may be, will create good faith between anybody by using politicians' sophistry?

A surplus is just as much a profit as a 'digging tool' is a spade and the 'working population' would be the first to tell you so.

Yours faithfully,
Leatherhead, Surrey.

E. W. FIELD, A.C.A.

Overdrafts

SIR, - Are the banks properly fulfilling their function as bankers to industry?

Unfortunately, owing to the vicissitudes of post-war price levels a vast number of businesses are relying on the banks for almost permanent finance, and its redemption is negligible.

Although they are not to be expected to finance over-trading through the acquisition of additional assets, they should be expected to finance the gap between changing price levels for the same volume of goods. Businesses should not, on this account, be subject willy nilly to squeezing and retraction.

If the banking system, as at present constituted, is unable to fulfil this function then some special banking facility outside the big five is needed. If not, how will industry, in its thousands of small units, obtain sufficient capital twenty years hence with further devaluation to come?

Yours faithfully,

Bristol.

L. C. WORRALL.

'Foreign Exchange in Practice'

SIR, - I was interested to read the article on 'Foreign exchange in practice' contained in the issue of September 21st. I shall be grateful if your contributor will extend his example to show:

- (a) The full balance sheets stating specifically how exchange differences have been treated in the stable currency accounts (balance sheet and profit and loss account).
- (b) Balance sheets at the end of the ten-year period, assuming profits, dividends, taxes and exchange rates continue on the same basis as in the example, and further, that the fixed assets are retired exactly at the end of their theoretical life. For simplification, it can also be assumed that the assets have not been replaced at balance sheet date.

I feel that not nearly enough guidance has been given by the professional institutes on this troublesome subject. One has only to scrutinize published accounts to observe the variety of methods adopted in practice. The old textbook theories have gone with the gold standard. Exchange rates are just another facet of changing price levels, with the important difference that the former are largely controlled and manipulated, whereas the latter do tend to move somewhat more freely.

Yours faithfully,

ROCK.

[Our contributor writes:

If the opening balance sheet consisted of capital stock sterling and local currency 10,000 represented merely by fixed assets of a like amount, the capital stock would be represented at the end of the third year by net fixed assets SC/LC 7,000 plus (if depreciation was retained as such in the operation as cash and assuming all profits are distributed) SC/LC 3,000 in cash.

On the devaluation of local currency from 1 LC=

1 SC to 1 LC=50 SC, the local currency cash undergoes a diminution in value in terms of the stable currency and therefore a loss is incurred only in the *stable currency*. The net worth, while remaining the same in local currency, is reduced by the exchange loss - viz. from 10,000 SC to 8,500 SC:

	Local Currency	Rate	Stable Currency
Fixed assets	10,000	1'00	10,000
Less Reserve for depreciation	3,000	1'00	3,000
Net fixed assets	7,000	1'00	7,000
Cash	3,000	50	1,500
Total assets	10,000	85	8,500
Capital stock	10,000	1'00	10,000
Earned surplus (loss)	—	—	(1,500)
Net worth	10,000	85	8,500

Following the assumptions suggested by 'Rock' in (b) of his letter the next seven years' results would be:

	Local Currency	Rate	Stable Currency
Net profit before depreciation	14,000	50	7,000
Less Reserve for depreciation	7,000	1'00	7,000
Net profit after depreciation	7,000	—	None
Local income taxes	(1,750)	50	(875)
Net profit available for dividends	5,250	—	(875)
Dividends paid	(3,500)	—	(1,750)
Net profit (?) credit to earned surplus	1,750	—	(2,625)
The balance sheet at the end of the tenth year:			
Fixed assets	10,000	1'00	10,000
Less Reserve for depreciation	10,000	1'00	10,000
Net fixed assets	None	—	None
Cash	11,750	50	5,875
Total assets	11,750	50	5,875
Capital stock	10,000	1'00	10,000
Earned surplus:			
At end of third year	—	—	(1,500)
For the next 7 years	1,750	—	(2,625)
Net worth (end of tenth year)	11,750	—	5,875
A dividend declaration of the balance in earned surplus of	(1,750)	—	(875)
Leaves a balance of original investment now worth in SC.	10,000	50	5,000

It would be interesting to have the views of readers on the above which, I believe, shows one of the dangers of 'following the rules'.]

Electronics in the Office

Errors in Computing Processes

In an address on 'The machine's-eye view' at the first meeting of the British Computer Society – noted elsewhere in this issue – Professor D. R. Hartree, F.R.S., gave examples of errors that can occur in computing processes.

Professor Hartree made two points: firstly, in a hand computation an intelligent and experienced computer will often exercise that intelligence and intuition, based on experience, about the sort of way in which the calculations are likely to go, and will do this almost automatically and unconsciously; whereas the machine is an approximation to an unintelligent and inexperienced computer, and has not got this background of knowledge and experience unless it is explicitly built into the program.

His second point was made on behalf of the machines, emphasizing that machine errors are not the only sources of wrong results. Such errors may also occur through the machine being supplied with the wrong data, through program errors, or through use of a program which carries out, however correctly, a process which is unsuitable for obtaining the results required.

With the increasing use of the machines, it was becoming increasingly likely that they would sometimes be used by people without adequate experience, and perhaps without adequate sense of the need for checking or an adequate sense of responsibility.

A New Transmitting Device

A new experimental device which will enable business machines to 'talk' directly with one another at a speed of about a thousand words a minute has recently been announced by Bell Telephone Laboratories Ltd. By this device printed material can be sent over lines like those used for telephone purposes, but at a speed sixteen times that of conventional tele-typewriter systems.

Tentatively called a 'data subset', the device is designed to give accurate transmission among wide varieties of information processing machines, such as electronic computers, electric typewriters, or adding machines. Transmission of the data is automatic, and voice communication can precede or follow the operation.

Information is placed on magnetic tape by an electronic computer, electric typewriter or other machine. In contrast to punched holes used in many other automatic machines, letters numbers or symbols are placed on the magnetic tape in the form of magnetized areas. The chief advantage of magnetic tape is that its speed is easily adapted to match that with which the signals can be sent over telephone wires. It also has the advantage of quiet operation.

After its preparation, the tape is then inserted into the data subset machine. The person sending the message talks by telephone with the person on the

receiving end to notify him that the message is to be transmitted. The recipient turns on a receiver mechanism and the sender then starts transmission. An automatic signal indicates when the taped message is completed. The person on the receiving end removes the tape from the machine and inserts it in the office machine for decoding. On an electric typewriter, for example, the mechanism could be arranged to type out the message automatically from the magnetic tape. This would be set for the speed of the typewriter and could be at a faster speed than a typist could attain. To provide essentially error-free transmission, extra error-checking equipment can be added.

Because of its great speed, the equipment uses the information handling capacity of telephone circuits with high efficiency. In many instances, there is no urgency requiring that a message be sent at 1,000 instead of 100 words per minute. But, for a given amount of information, the machine reduces drastically the amount of time the telephone line would need to be used. Equipment could be set up to function in off-peak telephone traffic hours. For example, the subset could transmit over one line from 5 p.m. until 9 a.m. the following day the equivalent output of some thirty expert typists typing at full speed for eight hours.

Typewriter preparation of the magnetic tape is only one of many methods which could be employed. More complex business machines would perhaps find even greater use for this type of transmission system. For instance, a bank might employ an electronic computer to compile account numbers, deposits, withdrawals and balances. By placing the data on magnetic tape, the bank could quickly send the information to one or several of its branches simultaneously.

Electronic Calculator for British Railways

A new electronic calculator which has been installed by the London Midland Region of British Railways at the Derby works accountant's office is the first of its kind to be used on British Railways. The machine, which does the work of two less advanced machines, subtracts, multiplies and divides through a punched-card system rapid and accurate information on the issue, receipt, costs and movement of stores.

Inventory control, with which the machine is concerned, is a major task at the works since the Derby stores contain materials worth more than £3 million comprising 60,000 different items. It covers the control of all stores holdings – both by quantity and value – ensuring that stores items are immediately available without the undesirable necessity of carrying large stocks. The machine, a *Hollerith 550* marks a further step in the mechanization of accounting being carried out by the London Midland Region as part of its modernization scheme.

ANNUAL DINNER AT BRIGHTON

South Eastern Society of Chartered Accountants

A company of 300 attended the annual dinner of the South Eastern Society of Chartered Accountants at *The Hotel Metropole*, Brighton, on Friday, November 1st. The President, Mr P. D. Irons, B.COM., A.C.A., was in the chair, and, together with Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, received the members and guests. Among those present were the Mayor of Brighton, Alderman Charles Tyson, B.SC., F.C.A., F.I.A.R.B., who attended the reception only; Squadron Leader J. S. Booth, D.F.C. and Bar, Chief Test Pilot, Saunders-Roe Ltd; Mr C. P. Brousson, M.A., F.C.A., Chief Accountant, J. & A. Scrimgeour; Mr G. Y. Hinwood, Chief General Manager, Lloyds Bank Ltd; Mr W. T. Hunter, M.B.E., F.C.A., and

Messrs P. G. Barnett, A.S.A.A. (President, *Incorporated Accountants' District Society of Sussex*); W. S. Bidmead (President, *Institute of Bankers, Brighton, Hove and District Centre*); M. C. Good (H.M. *Inspector of Taxes*); D. A. Green, A.C.A. (Chairman, *Chartered Institute of Secretaries, Sussex Branch*); J. W. Greenwood (H.M. *Inspector of Taxes*); W. D. Hart, O.B.E. (President, *Brighton and Hove Chamber of Commerce and Trade*); W. J. Hutchinson (H.M. *Inspector of Taxes*).

Messrs P. H. Inman, F.R.I.C.S., F.A.I. (Chairman, *Chartered Auctioneers' and Estate Agents' Institute, Sussex Branch*); H. W. Leonard, A.A.C.C.A., F.B.S. (President, *South Eastern Society of Certified Accountants*); Alan S. MacIver, M.C., B.A. (Secretary, *The Institute of Chartered Accountants in England and Wales*); F. S. Plews, A.C.I.I. (President, *Insurance Institute of Brighton*); R. C. Webb, LL.B. (President, *Sussex Law Society*); together with the Presidents of seven of the Institute's District Societies.

Development of the Profession

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales and the Accountancy Profession', Mr Hinwood recalled that the Institute's Charter was granted by Queen Victoria. In those days, he understood, no self-respecting person would be seen with an accountant. There had been many changes over the years; in these days accountants were quite essential. Taxation had added very much to the need for accountants and, he said, it was interesting to see in the library list of the South Eastern Society that the number of books on taxation exceeded those on accountancy. Today there were more accountants in commerce and industry than in practice and he, as a banker – and most bankers – were very pleased to see a chartered accountant as a director. 'We bankers regard the chartered accountant as a friend,' he said.

In his reply, Mr Lawson expressed his pleasure that the toast should have been proposed by a banker, and he continued, humorously:

'We are all indebted to our bankers – most of us in the literal sense – and our bankers must, therefore, have a deep concern for our state of health. We, on our side, wish our bankers not only health but wealth. By the way they look at us nowadays when we apply for overdrafts one might think they are not as rich as they used to be. The money seems to be giving out.' (Laughter.)

Referring to the meeting held that day at which The Society of Incorporated Accountants had placed itself in voluntary liquidation, Mr Lawson said:

'Integration with the Institute will come into effect forthwith. Our task now is to admit the incorporated

accountants to membership of our Institute as quickly and as smoothly as possible and to bring them into the life and activities of our Institute so that all concerned – the incorporated accountants themselves, our members and the public – can forget that we were ever two separate bodies.'

Dealing with recruiting for the profession, Mr Lawson mentioned the pamphlet entitled *Why not become a Chartered Accountant?* distributed by the Institute, and said he hoped members would follow this up by strengthening their own personal contacts with schools in their areas.

25th Jubilee Year

In conclusion, Mr Lawson said:

'This evening is a memorable occasion, for your Society, because I believe you are twenty-five years old this year. It is a pleasant and significant fact that in this year you should have as your President for the first time a non-practising member of the Institute.'

'Our non-practising members make a great contribution to our affairs in many directions and it is a very nice thing when a distinguished non-practising member such as your President is willing to add to the heavy burden of work for his own company the great additional task of membership of our Council and Presidency of your Society.'

Responding to the toast of 'Our Guests', proposed by Mr Hunter, Squadron Leader Booth said that he had tried to find some connection between the accountancy profession and his own and he found that both had some connection with 'banking'. And in the Society's annual report he found a balance sheet in which there was a thing called 'overheads'. (Laughter.)

In these days of financial crises, he added, the profession of accountancy must carry a tremendous amount of responsibility. It was inevitable that people in responsible positions must maintain a very high standard of integrity and knowing their President, he was quite sure this was true in their case.

Mr Brousson, proposing the toast of 'The South Eastern Society of Chartered Accountants', said that the Society represented Kent, Sussex and Hampshire.

In the past, he continued, there had been rather an unhappy feeling between the non-practising and the practising accountant. Whether it was jealousy or not he was not prepared to say, but it was not always recognized that the non-practising accountant could be of immense help to the practising accountant.

'We are all of one profession,' stated Mr Brousson. 'There are two halves and the sooner it is realized that those two halves are irrevocably knit together the better.' (Hear, hear.)

In acknowledgment, Mr Irons said he was indeed honoured to be the President of the South Eastern Society during its twenty-fifth jubilee year and particularly to be the first Associate to hold office.

'One of our biggest problems,' he continued, 'is training and recruitment and it is in that sphere that we industrial accountants can show our real help to the Institute.'

Mr Irons spoke of the extremely valuable work done by Mr R. McNeil, F.C.A., the South Eastern Society's representative on the Council of the Institute, and acknowledged the work of Mr T. T. Nash, A.C.A., the honorary dinner secretary.

Notes and Notices

THE INSTITUTE OF CHARTERED
ACCOUNTANTS IN ENGLAND AND WALES

DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council appointed pursuant to bye-law 103 of the bye-laws appended to the Supplemental Royal Charter of December 21st, 1948, at a hearing on September 4th, 1957.

The committee heard thirty-eight formal complaints preferred by the Investigation Committee each to the effect that the member concerned had failed to pay within four months of April 1st, 1957, the subscription then due and payable by him, so as to render himself liable to exclusion or suspension from membership.

In every case the committee found the formal complaint proved.

The committee ordered that each of the fourteen members whose names are set out below be excluded from membership of the Institute:

Alfred Kyle Ackernley, A.C.A., 14 Rushley Drive, Hest Bank, Lancaster.

Dennis Arthur Andrews, A.C.A., Wycliffe College, Hoskin Avenue, Toronto 5, Canada.

Allan Marlowe Brooks, F.C.A., 47 Eaton Road, Sutton, Surrey.

Arthur Currie, A.C.A., c/o Messrs Dearden, Gilliat & Co, 14 Lloyd Street, Albert Square, Manchester, 2.

John Roxburgh Fenton, F.C.A., c/o National Provincial Bank Ltd, Berkhamsted, Herts.

Raymond John Fitter, B.Sc., A.C.A., 33 North Row, London, W1.

Geoffrey William Harris, A.C.A., c/o W. Harris & Co, P.O. Box 532, Gwelo, Southern Rhodesia.

Hubert Patrick Horan, A.C.A., c/o Messrs Lankester & Son Ltd, Holyrood Place, Southampton.

Andrew Johnstone Howie, A.C.A., 142 Kent Street West, Lindsay, Ontario, Canada.

Fernand Roland Llewellyn Lewis, A.C.A., Stanfield, Reading Road, Burghfield Common, Berks.

Walter Stephen Lewis, M.B.E., A.C.A., c/o Royal Mail Lines, Royal Mail House, Leadenhall Street, London, EC3.

William Marbeck, A.C.A., 19 Walmaley Road, St Heliers, Auckland, New Zealand.

Henry Paul Pilling, A.C.A., 30 Moore Street, London, SW3.

Herbert Ernest Cromwell Wood, A.C.A., 5 Dane John, Canterbury.

The committee further ordered that six other members be excluded from membership but that the decision be suspended in each case so as to take effect from October 31st, 1957, only if a remittance of the amount owing should not have been received before that date. As a result the following two members were excluded from membership on October 31st, 1957. In the four other cases the decision did not take effect.

Ibrahim Ali Ashmawi, A.C.A., Faculty of Commerce, Ibrahim University, Mounira, Cairo, Egypt.

Antoun Fouad Ezzat, B.COM., A.C.A., c/o Messrs Russell & Co, 20 Sharia Soliman Pasha, Cairo, Egypt.

In the case of the remaining eighteen members, whose full subscriptions had all been tendered by the date of the hearing, the committee decided that two be reprimanded and twelve admonished and that no action be taken against four; the committee considered that there existed in every such case special circum-

stances which justified the omission of the name of the member from the publication of the finding and decision.

MEMBERS' LIBRARY

A new edition of the 'Short List' of books in the library of the Institute, including books available on loan, has just been issued.

Copies of the list are available to members, free and post free, from the Librarian upon receipt of an addressed label.

PERSONAL

MESSRS PANNELL, CREWDSON & HARDY, Chartered Accountants, of Ghanabank Chambers, Accra, announce that they have opened an office at Ghana Commercial Bank Building, Kumasi, Ghana. The resident manager is Mr ANTHONY STUART LARCOMBE, A.S.A.A.

MESSRS H. S. HUMPHREY & Co, Chartered Accountants, of 17 Gildredge Road, Eastbourne, announce with deep regret the death at the age of 61 of Mr HERBERT SYDNEY HUMPHREY, F.C.A., their senior partner for many years. Mr HUMPHREY, who served in the Army in the First World War, was admitted an Associate of the Institute in 1928 and commenced practice in Eastbourne in the same year; he was elected to Fellowship of the Institute in 1933. The practice will be continued by the surviving partner, Mr B. I. POCOCK, F.C.A., under the style of H. S. HUMPHREY & Co.

MESSRS FINNIE, ROSS, WELCH & Co, Chartered Accountants, of 108A Cannon Street, London, EC4, and 140 West George Street, Glasgow, C2, announce that Mr R. A. J. Emery, C.A., F.C.I.S., who has been with them since 1936, has been admitted to partnership as from November 1st, 1957. The name of the firm will remain unchanged.

MESSRS GRAHAM, SMART & ANNAN, incorporating DEWAR & ROBERTSON, Chartered Accountants, of 22 Charlotte Square, Edinburgh, 2, announce that Mr JAMES LEARMONTH SCOTT VEITCH, C.A., A.C.W.A., who has been their managing clerk for a number of years, has been assumed as a partner as from November 1st, 1957. The firm name will remain unchanged.

LONDON AND DISTRICT SOCIETY OF
CHARTERED ACCOUNTANTS

TAXATION CONFERENCE

The taxation conference organized by the London and District Society of Chartered Accountants assembled on Thursday at *The Grand Hotel*, Eastbourne, and continues until midday today (Saturday).

The opening address was given on Thursday afternoon by Mr W. S. Carrington, F.C.A., Over 100 delegates heard papers on 'The effect of inflation on taxation', by Mr C. D. Hellyar, F.C.A., on 'Aspects of personal taxation', by Mr G. G. G. Goult, F.C.A., and on 'Taxation through the looking-glass', by Mr G. S. A. Wheatcroft, M.A.(OXON.), F.I.I.T., F.B.I.M. These papers formed the basis of discussion for the members of the Society attending the conference. The chairman of the conference is Mr C. W. Aston, A.C.A.

LUNCHEON MEETING

The next luncheon meeting of the London and District Society will be held on November 18th at the Connaught Rooms, Great Queen Street, London, WC2, at 12.30 for 1 p.m. when Sir Donald Anderson, a deputy chairman of the Peninsular & Oriental Steam Navigation Co Ltd, will be the speaker.

CITY DISCUSSION GROUP OF CHARTERED ACCOUNTANTS

The next meeting of the City Discussion Group of Chartered Accountants will be held next Wednesday, November 13th, at *The Cock & Bottle*, Laurence Pountney Hill, London, EC4, at 6.15 p.m. The topics will be: 'The international congress' and 'The Cheques Act, 1957', to be introduced by Mr P. L. Armstrong, F.C.A., and Mr J. C. Durnin, A.C.A., respectively. Visitors will, as usual, be most welcome.

IN PARLIAMENT

POST OFFICE: COMMERCIAL ACCOUNTS: REPORT

Mr RUSSELL asked the Postmaster-General to reconsider the possibility of making available the report on the Post Office commercial accounts, prepared by Messrs Peat, Marwick, Mitchell & Co, so that the House may be fully informed on the basis for the proposed changes in those accounts.

Mr MARPLES: Yes. I am placing a copy in the Library.

Hansard, Oct. 29th, 1957. Written Answers. Col. 40.

POST OFFICE: ACCOUNTS

Mr NESS EDWARDS asked the Postmaster-General if he will now reconsider his decision not to publish the report of the Chartered Accountants on Post Office finances; and if he will make a further statement.

Sir I. CLARK HUTCHISON asked the Postmaster-General if, in view of the public interest in the financing of the Post Office services, he will reconsider his decision not to publish the recent report which has been made by a firm of Chartered Accountants.

Mr MARPLES: I would refer the right hon. Member and my hon. friend to the answer I gave my hon. friend the Member for Wembley, South (Mr Russell) yesterday.

Mr WOODBURN asked the Postmaster-General the surplus earned by the Post Office after calculating depreciation on the basis of replacement cost; and how does this figure compare if depreciation were allowed on the principles applied to commercial and industrial firms by Inland Revenue rules for the years 1956-57, 1957-58 and 1958-59, respectively.

Mr MARPLES: In answer to the first part of the question I would refer the hon. Member to my reply of July 31st to the hon. Member for Salford, East (Mr

Frank Allaun).¹ The answer to the second part is that if depreciation provision had remained on an historic basis the estimated results would have been better by £15.7 million, £16.9 million and £16.5 million, respectively.

Mr WINTERBOTTOM asked the Postmaster-General on what date he instructed the firm of Chartered Accountants to examine the Post Office accounts; and on what date he received the report.

Mr MARPLES: They were instructed on March 28th last. They submitted preliminary observations during the summer, and a final report on October 3rd.

Mr WINTERBOTTOM asked the Postmaster-General if, as a result of the Chartered Accountants' report into Post Office accounts, he is now prepared to adopt a system of accountancy which reflects accurately and in greater detail the services of the Post Office to other State departments.

Mr MARPLES: The present system provides fully for bringing to account as income either the cash received from other departments or (in so far as cash is not received) the computed value of all services rendered to them. This is explained in the text accompanying the accounts. Since the Accountants' recommendations are generally in favour of greater simplicity, I should be reluctant to show details on the face of the accounts themselves. If, however, the hon. Member feels when he sees the next accounts that more could be done to promote understanding on this point, I shall welcome his suggestions.

Hansard, Oct. 30th, 1956. Written Answers. Col. 61.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

LUNCHEON MEETING

The first of the winter series of Certified Accountants' luncheon meetings was held at the Connaught Rooms, London, WC2, on Monday, November 4th. The chairman, the Rt. Hon. Lord Latham, J.P., F.A.C.C.A., introduced the guest speaker, Mr Robin Day, the chief newscaster for Independent Television News. Mr Day's talk was enjoyed by 150 members and their guests.

ANNUAL DINNER AND DANCE

The 1957 dinner and dance of the Association will take place in the Great Room, Grosvenor House, Park Lane, London, W1, on Thursday, December 5th, at 7 for 7.30 p.m. Dancing to George Jay and his orchestra will continue until 1 a.m. A late night buffet will be served at the tables at 11.30 p.m. Further details and tickets may be obtained from the Secretary of the Association, 22 Bedford Square, London, WC1.

¹ Mr Marples' reply to Mr Frank Allaun indicated that surplus in the years mentioned is estimated as follows: 1956-57, -£6.3 million; 1957-58, £1.1 million; 1958-59, £10.2 million. (*Hansard*, July 31st, 1957, Oral Answers. Col. 1238.) - Editor.

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THE LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

In our report last week of the annual dinner of The Leeds, Bradford and District Society of Chartered Accountants, Col. Sir Malcolm Stoddard-Scott, O.B.E., T.D., M.D., was incorrectly described as Member of Parliament for Wigan: we regret this error. Sir Malcolm is, of course, the Member of Parliament for Ripon.

BIRMINGHAM AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The lecture meetings of the 1957-58 session of the Birmingham and District Society of Chartered Accountants commenced recently with a talk on 'The history and functions of the Bank of England', by Mr D. H. Buchanan, Agent of the Bank of England.

The programme for the rest of the session is as follows:

November 14th: 'An introduction to electronic data processing', by Mr J. D. Green, F.C.A.

December 11th: 'Estate duty valuation and the family company, with special reference to the Finance Act, 1954', by Mr E. L. Fairweather, O.B.E., LL.B., Chief Examiner, Inland Revenue Estate Duty Office.

January 8th, 1958, at The Queen's Hotel: 'The use of settlements to minimize taxation', by Mr G. S. A. Wheatcroft, M.A.

February 18th: 'Professional education', by Mr Bertram Nelson, C.B.E., J.P., F.S.A.A.

March 13th: Annual dinner at *The Grand Hotel*.

Except where otherwise indicated, these meetings will be held at Regent House, St Philip's Place, Colmore Row, Birmingham, 3, at 6 p.m. Tea will be served from 5.15 p.m. onwards to members obtaining tickets from the library in advance of each meeting.

CRAWLEY ACCOUNTANTS' GROUP

The programme for 1957-58 of the Crawley Accountants' Group, which is a general discussion group open to members and students of the five recognized accountancy bodies, has been arranged as follows:

November 19th: 'Accounting in its context': several members give the background of the accounting function in their own organization.

December 11th: 'Electronics', by Mr S. R. Lucas.

January 9th, 1958: 'Practical problems of financial and cost accounting'; brains trust.

February 13th, 1958: 'Accounts layout for standard costing', by Mr Peter Terrill.

March 13th, 1958: 'Case study': discussion based on problem to be presented by a member.

April 10th, 1958: 'Consequential loss and other insurance', by a representative of an insurance company.

May 8th, 1958: Annual general meeting.

Meetings will generally be held at West Green Community Centre at 7.45 p.m. for 8 p.m.

Those accountants in the Crawley area wishing to join the Group are invited to attend the meeting or to write to Mr Peter S. Wells, A.A.C.C.A., A.C.W.A., 107 Gales Drive, Three Bridges, Sussex.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

Mr D. G. Bee, F.C.A., who was elected President of the Manchester Society of Chartered Accountants at a meeting of the committee of the Society on April 26th, has been compelled to relinquish his Presidency by reason of ill health. His resignation has been accepted with great regret and Mr Arthur Halsall Walton, F.C.A., has been elected in his place.

FIRST MEETING OF THE BRITISH COMPUTER SOCIETY

The first meeting of The British Computer Society took place on October 21st and began with a brief review by the Society's President, Dr M. V. Wilkes, F.R.S., of events leading up to the formation of the Society and also of planned activities which include the formation of branches at Manchester, Birmingham, Glasgow, Leeds, Newcastle, Nottingham, Cardiff and Plymouth. At a luncheon given by Mr D. W. Hooper, M.A., A.C.A., chairman of the Council, and Mrs Hooper, for members of the Council and their ladies, it was announced that the Society had now received its certificate of incorporation as a company limited by guarantee, the members of the Council being the first directors.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m., at the Institute: Lecture on 'Accounts and the workers', by Mr George Woodcock, C.B.E. (assistant general secretary, T.U.C.), and Mr E. Fletcher (head of Production Dept., T.U.C.). Chairman: Mr W. K. Wells, B.A., F.C.A. (member of the Committee of the Students' Society).

Tuesday, Visit to Ford Motor Works (limited number).

Wednesday, 5.30 p.m., at the Midland Bank, Poultry, EC2: Debate with Midland Bank Debating Society on the motion 'To travel hopefully is a better thing than to arrive'.

Thursday, Visit to Midland Bank (limited number). *5.15 p.m.,* at the Institute: Introductory course lecture on 'Bankruptcy, liquidation and receivership', by Mr A. C. Staples.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on (1) 'Taxable income', by Mr J. Kennedy Melling, A.C.A., A.T.I.I., F.R.ECON.S., and (2) 'The law of agreements and damages', by Mr A. C. Staples.

7.0 p.m., at Chelmsford: Lecture on 'Auditing, including share transfer audits and other examination topics', by Mr R. Gwynne Williams, F.C.A.

Saturday, Badminton match. *c.* Regent Street Polytechnic.

COMPUTER COURSE FOR OVERSEAS EXPERTS

The British Council has for the first time arranged a course on British computers for overseas experts. The course, which began last Sunday and ends today, has been arranged in view of the extensive pioneering work which has been done in Britain on digital computing machines. The programme was designed to provide a

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survey of available machines, their programming and their application in commerce and industry. Visits to computing establishments illustrated the development of computer design and the practical results of laboratory research. Members of the course also saw computers in use and discussed problems with workers in the field.

Four members of the course are from Poland, three are from Belgium and two are from Norway; there is one member each from Australia, Austria, France and Yugoslavia.

INCORPORATED ACCOUNTANTS' LODGE

The installation meeting of the Incorporated Accountants' Lodge was held on October 22nd, at Freemasons' Hall, Great Queen Street, London, WC2, when W. Bro. E. B. Trimmer installed his successor, W. Bro. G. J. Hakim as W.M.

W. Bro. G. J. Hakim invested the following officers:

Bro. F. R. Marshall, *S.W.*; Bro. A. Armit, *J.W.*; W. Bro. W. J. Crafter, *Treasurer*; W. Bro. A. S. Darr, *Secretary*; W. Bro. E. J. P. Garratt, *D.C.*; Bro. F. A. Roberts, *S.D.*; Bro. J. W. Pirie, *J.D.*; W. Bro. A. V. Hussey, *A.D.C.*; W. Bro. A. A. Garrett, *Almoner*; Bro. E. A. Woods, *I.G.*; Bros. L. J. D. Jones, E. J. Morris, W. Bro. H. Rose and W. Bro. E. Downward, *Stewards*; W. Bro. A. C. Chitty, *Tyler*.

A very large number of guests were present.

The address of the Secretary of the Lodge is 5 Forest Close, Snaresbrook, E11.

DEVELOPMENT OF EXECUTIVES

A one-week residential course on the development of executives designed to stimulate thought on those aspects of personality and performance which help to make good managers is to be held at the Sundridge Park Management Centre, Bromley, Kent, from January 26th to 31st, 1958, and from October 26th to 31st, 1958.

Among the subjects under consideration will be executive duties and responsibilities, handling people and decision making. The inclusive residential fee for the course is 50 guineas and further information may be obtained from the Director, Sundridge Park Management Centre, Bromley, Kent.

CANADIAN TAX CONFERENCE

The annual tax conference of the Canadian Tax Foundation is being held in Toronto, Canada, next Monday and Tuesday. Among an interesting list of subjects to be discussed are 'Foreign tax havens for Canadian business', 'Tax planning for the executive', and 'What's to do about self-employed pension plans?'

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

'Repairs and renewals' will be the subject of a talk by Mr F. M. N. Martin, A.C.A., director, Scribbans-Kemp Ltd, at 6 p.m. on Friday, November 22nd, at Incorporated Accountants' Hall, Victoria Embankment, WC2. After the meeting there will be a short discussion for students on the teaching of the Bible in relation to points in the address.

All members and their friends will be welcome.

PROFIT-SHARING AND CO-PARTNERSHIP

A one-day conference on profit-sharing and co-partnership is to be held by the Industrial Welfare Society on December 2nd at Robert Hyde House, Bryanston Square, London, W1. The purpose of the conference is to provide a neutral platform from which the place of profit-sharing and co-partnership schemes as part of a company's human relations policy can be discussed; the various techniques will be analysed.

During the morning there will be an address on the purpose of profit-sharing by Mr F. J. Holroyde, managing director of The Solicitors' Law Stationery Society Ltd, and there will also be a general survey by Mr J. B. Perry Robinson, a director of Brewster Owen & Co Ltd, of the various ways of establishing profit-sharing and co-partnership schemes. During the afternoon there will be an address on 'A trade union view on profit-sharing', by Mr A. Smart, southern district officer, National Union of General and Municipal Workers.

Readers wishing to attend the course - for which the fee for non-members of the Society is £3 3s - should write to Mrs O. K. Skelley, Administrative Officer, Industrial Welfare Society (Inc), 48 Bryanston Square, London, W1.

NEW RESEARCH ESTABLISHMENT

The new headquarters of the research division of Powers-Samas Accounting Machines Ltd was recently opened at Whyteleafe, Surrey, by the Rt. Hon. the Viscount Knollys, chairman of Vickers Ltd. The setting up of this research establishment has enabled all research and associated development work to be concentrated under one roof.

The emphasis of the research is on the application of modern electrical and mechanical techniques to the development of equipment to serve the needs of industry and commerce, and research will be conducted into such subjects as punched-card techniques and data processing. Research and development will also cover the increased use of semi-conductor devices - for example, the transistor - and the storage of data using magnetic and other new methods.

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THE ACCOUNTANT

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ENCOURAGING THE SMALL INVESTOR

A WRITER in the current issue of *The Stock Exchange Journal* suggests that the British workman should be encouraged to provide, as well as his labour, a portion of the risk capital to finance industry. At first sight, the idea has many apparent attractions. It would help to broaden the basis of industrial ownership which is one of the desirable characteristics of a democracy. Again, it would certainly be in the interests of the Stock Exchange to set up (and, if necessary in the initial stages to finance) a department through which small savings could be invested in ordinary stocks. Finally, from the small investor's angle, the main advantages would be the formation or furtherance of the disciplinary habit of saving and, also, the development of a more realistic attitude towards the proper functions of capital employed in industry.

Compelling as these benefits seem, they have to be weighed against the formidable difficulties inherent in such a scheme. For example, with so many securities on the market, it would be impracticable to give every individual participant complete freedom in his choice of investments. Again, the treatment of dividends, voting rights and rights issues would require special consideration and the need to make available regular company information and to provide an advisory service would add appreciably to the cost.

These, however, in the main are problems of administration and, as such, could be overcome. A more difficult task would be to win the confidence of the would-be investor. To do this it would be necessary to educate him into understanding that investing money in industry is an economic and not a political act. He would also have to be made to realize that saving instead of spending is essentially a social gesture which does much to iron out the undesirable class distinctions referred to by a correspondent on another page of this issue. The deplorable attitude of mind exhibited by so many of the employees of a large industrial company a few months ago when they sold the shares they were given by way of a bonus as soon as they had received them, must be completely eradicated.

Independence, said EDWARD GIBBON, is the first of earthly blessings and it is one of the tragedies of our times that the once proud spirit is not more in evidence. To restore it, is essential to our national well-being, and if the Stock Exchange were to make available the machinery for saving by means of small investments it would be a patriotic as well as, perhaps, a profitable move.

THE NEW SESSION

LEGISLATION in the new session foreshadowed in THE QUEEN's address at the Opening of Parliament can hardly be called spectacular but much of it is certainly welcome. We detail on another page the proposed changes in war pensions, national insurance and national assistance benefits, and the unfortunately necessary increases in national insurance contributions. One minor change, which will save a substantial sum, is quite plainly right, namely, the withdrawal of the special tobacco concessions to pensioners. We have several times criticized this special concession, which enures largely for the benefit of the better-off pensioner.

The Government is also to give consideration to the wider aspects of the provision for old age. It may be that the flat rate principle which now governs State pensions will be to some extent abrogated eventually.

Everyone who has had to grapple with the intricacies of import duties will welcome the announcement that a Bill is to be introduced to revise and codify existing legislation on this subject. The present state of the law is chaotic and must have a very undesirable effect on international trade, for there is a large range of goods about which the appropriate rate of duty is a matter of great uncertainty. Of course, the background to the proposed change is the proposal to establish a European free trade area.

Legislation is to be introduced to establish machinery for the reorganization of local government in England and Wales. It will make adjustments in the rating system and in the system of Exchequer grants to local authorities. These changes were foreshadowed by the Government White Paper¹ on local government finance which was the subject of a leading article in our issue of July 20th last. The most important change in rating will be the partial withdrawal of the concession granted to occupiers of industrial and freight transport properties. Separate legislation will be introduced for Scotland.

The Government has also apparently come to some conclusions on the report of the Franks Committee on administrative tribunals and inquiries. This report was published last July

and was the subject of a leading article in our issue of the 27th of that month. The Speech from the Throne announced that the Government had considered this report with care and would give effect to certain of the recommendations in it. In fact the report had been the subject of a debate in the House of Commons a few days earlier. THE HOME SECRETARY then said that the Government accepted at once the three guiding principles which the committee said should underline the work of tribunals and administrative inquiries; those of openness, fairness and impartiality.

It is proposed to set up a council to be appointed jointly by THE LORD CHANCELLOR and THE SECRETARY OF STATE FOR SCOTLAND. The differences between English and Scottish law could be settled by setting up a committee or panel of the council to deal with matters of special concern to Scotland. This council would be consulted by the Government before any new tribunal was appointed, and a number of matters in the report would be referred to the council for its advice. This is rather like going round in a circle: the Franks Committee is appointed to make recommendations and then a council is established to consider the recommendations which the committee has made.

The Franks Committee recommended that restrictions on the right of a citizen to be legally represented before a tribunal should be removed, and the Government has accepted this in principle. It is also agreed that the chairman of a tribunal should have legal qualifications, but unqualified chairmen already serving satisfactorily would not be dismissed. The proposal for legal aid before administrative tribunals was not exactly rejected but it will have to take its place in the queue. All these matters may be of particular importance in relation to income tax appeals. The appellant taxpayer already has the right to be legally represented, but no matter how successful he can never recover his costs from the Revenue, nor even, strictly speaking, claim a deduction for them. Income tax appeals, however, form only a minor facet of the general question of administrative tribunals; much of the limelight is centred on town planning inquiries, in relation to which other changes are contemplated.

¹ Cmd. 209.

AMERICAN FACTORS

by L. H. TRIMBY, A.C.A.

F'ACTORING' in the present context may be defined as the practice whereby a principal buys under certain specified conditions the debtor accounts of the seller, the former assuming the credit risk for a consideration, the latter enjoying the liquidation – generally within twenty-eight days – of his debtor accounts as accepted by the buyer.

Factors operate mainly in the United States as part of the nation-wide credit system which is peculiarly American, but their business with dollar-seeking overseas clients is expanding annually at a formidable pace.

Today it is general practice for any company which has a relatively substantial investment in debtors' accounts to convert this asset to cash and eliminate, by factoring, the credit risk inherent in them, thus protecting the position in the absence of a wholesaler.

Sale of Debtor Accounts

It is precisely this situation which factoring is geared to resolve. By selling his debtor accounts to the factor without recourse and cashing these sales, the manufacturer eliminates credit risk. The cash made available is used to finance the stocks necessary to promote a larger volume and, of course, larger profits. In addition to these advantages, the manufacturer eliminates debtor accounts book-keeping, the problem of unearned discounts, and, from a selling standpoint, the unpleasant duty of refusing credit or making collections.

The prime purpose of factoring is to provide a tool for management, the use of which will result in a better yield on capital. As described above, the two basic functions of a factor are:

- (1) the elimination of credit risk;
- (2) the elimination of investment in debtors accounts.

A charge is made for each service. The basic charge, called 'commission', is a small percentage based on the net value of debtors' accounts purchased. This charge provides for the factor purchasing the accounts at his risk, handling all the book-keeping, collections and remitting the proceeds of the month's sales at the average best short-term maturity date. The other charge is interest at 6 per cent per annum for any funds advanced at the manufacturer's request, before the short-term maturity.

Most customers take advantage of both functions, but in some cases, particularly where sales are made on a short-term discount, the customer's prime interest is in credit protection, elimination of the problems of collection and book-keeping. To a large number of firms, elimination of credit risk and the waste of time and effort involved when a selling agent has to concern himself with credit checking and collections, more than justifies factoring.

Advantages to the Manufacturer

Inasmuch as the factor buys accounts on the best short-term discount, the use of factoring enables the manufacturer, regardless of when his customers pay, to receive the proceeds of the month's sales during the following month. Thus, a factor whose own credit is beyond dispute, stands in place of a large number of accounts and guarantees either to pay all invoices at short-term discount or pay cash to the manufacturer immediately the invoice is received. In effect, it enables the manufacturer to sell for cash without credit risk while allowing the manufacturers' customers the full advantage of regular terms. Further, when necessary from a merchandising standpoint, with the approval of the factor, terms and dating fully competitive with the best granted by any foreign or domestic manufacturer can be offered without risk to him.

A first-rate American factor can offer the foreign manufacturer the services outlined above which are identical to the service offered to his own clients.

Although domestic mills, on the whole, have for years been selling direct to customers, a considerable volume of imported merchandise continues to be handled by 'distributors'. They, in effect, are wholesalers adding their margin to the selling price of goods, most of whom factor their sales and pay promptly for the goods. Except for a few small orders, however, their purchases from manufacturers are strictly against customers' orders. Increasingly, foreign manufacturers are finding it as much to their own advantage as it is to their domestic counterpart to sell direct through an agent and use a factor to protect their credits and cash their sales. Through such arrangements they are able, without credit risk, to promote volume sales in the United States and obtain a better yield on the capital employed than in any other world market.

While the credit protection offered by the factor cannot be equalled by any other service, the financial flexibility it makes possible cannot be matched by banks. Whereas bank credit is directly related to the quality of the customer a factor looks to the credit of his client's customers. Therefore, funds available to the client are related directly to his sales and under optimum conditions permit him to do a truly remarkable volume in relation to his capital. For these reasons, factoring volume in the United States now exceeds \$3,000 million annually.

Factor's Contract

The relationship between factor and client is governed by the factor's contract which is drawn up in conformity with the New York Factors' Statute. In practice, a client and the factor sign a contract which defines the rights and obligations of both parties and states the terms under which the factor will purchase the debtor's accounts.

Basically, the agreement provides that the factor purchase at his own risk sales approved by the client's credit department, and requires that accounts purchased and assigned to the factor be accompanied by proof of delivery (shipping documents etc.) and that notice of the assignment on the original invoice be given the customer.

The procedure is simple. The factor provides assignment forms—in effect a bill of sale to the factor of the amounts listed—to which the original invoice and duplicates are attached. The assignment notice on the original invoice states that the invoice has been assigned and is payable to the factor. The contract further provides that a detailed statement of the month's transactions will be sent to the client on or about the tenth of the following month. Proceeds of the assigned sales are mailed or cabled, as agreed, at the short-term maturity, or on request.

Establishing a factoring agreement is quick and simple. Once the terms are agreed to, it requires only the necessary signatures on the factor's forms. The factor, of course, has to have information regarding the quantity and quality of the sales he is planning to buy, as well as information regarding the reputation and standing of the manufacturer who is to become his client.

A sound estimate of the annual volume and a list of customers supplies the information concerning the quantity and quality of the sales; a credit agency report and a bank reference, the necessary information regarding the proposed client. Broadly speaking, a company doing

business to the extent of \$250,000 or more annually in the American market, and having a reasonable working capital, is attractive as a client.

Presumably, any manufacturer in the United Kingdom selling in volume in the United States market is represented by an agent. When the manufacturer factors, the agent is as pleased as the manufacturer; he no longer has to concern himself with a customer's ability to pay. That is now the factor's problem and the agent can give his full attention and talents to merchandising.

If the manufacturer sells in sterling it can be arranged with the factor to convert the sterling invoice to dollars at the rate prevailing when the factor forwards the invoice to the customer. The customer can then enter the invoice in dollars and pay by simply drawing a cheque in dollars to the order of the factor. The manufacturer's account is in sterling in which remittances are made. When sales are made on a prepaid c.i.f. basis (on landing) the factor handles all the details of customs charges, custom broker's charges, etc., on behalf of the manufacturer for whom, when arranged, the dollar-landed billing will come.

Factor's Accounting System

The monthly record of the client's transactions are itemized in the account current statement on which the factor's accounting is based. Under this arrangement the client pays interest at 6 per cent per annum on advances only for the number of days by which he requests the factor to anticipate the short-term discount (which in factor's accounting is maturity). Thus the net cash value of the client's account at the end of the month is ascertained.

In addition to the account current, an account sales is submitted, itemizing the sales purchased by the factor. When these are made on a dollar-landed basis, duplicates of the custom broker's invoices, which have been paid by the factor and debited to the manufacturer's account, are attached. As the client receives a completely detailed statement of all sales and charges, he has no problem in making a quick and easy reconciliation monthly.

To sum up, modern business requires modern methods; therefore, when goods are sold on open account terms of thirty days or longer, the odds are they can be, with less clerical detail, turned over more effectively in greater volume and with the employment of less capital through the use of factoring.

FLUCTUATIONS IN RATES OF EXCHANGE

SOME TAX PROBLEMS

by T. J. SOPHIAN

WITH the fluctuations in rates of exchange and the devaluation of certain currencies, which have occurred in the past and are liable to occur in the future, it may be of interest to examine some of the tax problems which are likely to arise in such circumstances.

Deductibility of Tax from Annual Payments

In certain circumstances, the Revenue casts upon the payer the obligations of collecting tax. Thus interest of money and other annual payments are payable subject to deduction of tax at the source.

When the payment is made out of profits and gains which have already borne tax, the payer retains the amount of the tax deducted. Where on the other hand the payment is not so made, the payer must account to the Revenue for the tax deducted.

Sometimes payments may be made abroad, and in some cases the question may arise, if the payer is liable to account to the Revenue for the tax deducted, as to the basis on which such accounting is to be effected.

In this connection, the phraseology of General Rule 21 (see now Sections 169 and 170 of the Income Tax Act, 1952) is material. General Rule 21 (1) provides that upon payment of any interest of money, annuity or other annual payment charged with tax under Schedule D, not payable, or not wholly payable, out of profits or gains brought into charge, the person by or through whom any such payment is made shall deduct thereout a sum representing the amount of the tax thereon at the rate of tax in force at the time of the payment; and under sub-rule (2) the payer must render an account to the Revenue of the amount so deducted.

Reference must also be made to Section 33 of the Finance Act, 1924 (now Section 199 of the Income Tax Act, 1952). Under this section, the statement required to accompany every warrant or cheque or other order drawn or made in payment of any dividend or interest distributed by any company must state:

'(a) The gross amount which, after deduction of the income tax appropriate thereto, corresponds to the net amount actually paid; and

'(b) The rate and amount of income tax appropriate to such gross amount; and
'(c) The net amount actually paid.'

The *Rhokhana* Case

The construction of these statutory provisions arose for consideration by the House of Lords in *Rhokhana Corporation v. C.I.R.* (17 A.T.C. 70; 21 T.C. 552) where a United Kingdom company had issued debentures under the terms of which the principal and interest were payable in London, or at the option of the holder in New York, at a *fixed* rate of 4.86 dollars to the £, or in Amsterdam in florins at a *fixed* rate of 12.11 Dutch florins to the £. Certain debenture-holders cashed their warrants in New York and in Amsterdam and obtained the net amount of dollars or florins as the case might be, which had a higher exchange value than the fixed rate.

The question arose whether the paying company, in accounting to the Revenue for the tax deducted from the interest under General Rule 21, were bound to account merely on the basis of the fixed rate, or on the other hand on the basis of the higher rate owing to the devaluation. The Commissioners considered that the latter basis applied and made additional assessments on the company. The House of Lords, however, reversed this decision. In their view the contract between the company and the debenture-holders was an obligation to pay *in sterling* the balance that remained after deducting from the *sterling sum* of the interest the amount of tax at the current standard rate; and it was only of the balance so arrived at that the holder could at his option claim payment in the foreign currency. The House further held that the date at which the warrants were actually cashed, subsequent to their being drawn, was immaterial.

It is to be observed that in this case the debenture had fixed the rate of exchange. It was not the case of a simple order for payment abroad in a foreign currency with no provision for a fixed rate.

The ground of this decision appears to have been that the obligation of the payer was to account to the Revenue for the amount of the tax deducted. That was a debt due to the Revenue, but there could be no debt in the United King-

dom to the Revenue of an amount in foreign currency.

Application of Sections 169 and 170 to Foreign Residents

In this connection it may be noted in passing that Sections 169 and 170 of the Income Tax Act, 1952, which re-enact General Rules 19 and 21, may apply even when the payment is made by a foreign resident to a resident in the United Kingdom. The recent decision of *Stokes v. Bennett* (32 A.T.C. 256; 39 T.C. 337) indicates that those sections are just as applicable to persons resident abroad as they are to persons resident in the United Kingdom.

In the above case, a husband resident abroad had been ordered by the English Courts to make monthly payments of £22 tax free to his wife who was resident here. It was held that the husband was to be treated as having made payments of £44 per month gross and to have deducted tax therefrom, at the rate of 10s in the £ and to have collected the tax as collector for the Crown, and that his wife had suffered such tax by deduction when she received the net sum of £22 per month. The husband was liable for the tax to the Revenue, although the latter might not be able to recover it from him, and an additional assessment under Case III which had been made on his wife, on the footing that Section 170 of the Income Tax Act, 1952, did not apply in such circumstances, was discharged.

Profit on Re-sale of Stock Surplus to Requirements

In *Geo. Thompson & Co Ltd v. C.I.R.* (6 A.T.C. 965; 12 T.C. 1091), in consequence of the requisitioning of the ships belonging to a shipping company, a quantity of coal to be delivered to the company under a contract already made became surplus to the company's immediate requirements. The company transferred the benefit of the contract to another company at a substantial profit. It was held that the profit received on this transaction was liable to excess profits duty on the ground that the coal, being a necessity to the conduct of the company's trade, had been purchased in the way of that trade. The resulting profit accordingly had to be regarded as a business profit and was accordingly chargeable to tax.

In *McKinlay v. J. T. Jenkins & Sons Ltd* (5 A.T.C. 317; 10 T.C. 372) a company, carrying on the business here of marble and stone merchants, had entered into a contract to supply marble in Shanghai. Some of the marble would

in all probability have had to be purchased in Italy and the company accordingly purchased lire to pay for the marble.

Purchase of Foreign Currency to Discharge Payment under Foreign Contract

Owing to an unexpected rise in the value of lire, the company sold the lire and made a profit of over £6,000. Later, in order to make payment for the marble purchased in Italy, the company purchased more lire. The profit made on the first purchase of lire, however, was held not to be a trading profit of the company.

The ground of this decision appears to have been that the sum paid for the second purchase of lire bought to pay for the marble would necessarily be included in determining the amount of the profits made by the company under the Shanghai contract. The price paid for the first purchase of lire accordingly could not also be included in that computation and, as it could not be included as a trading expense of the company, the sum realized on its sale had equally to be excluded as a trading receipt.

The underlying distinction between this case and *Geo. Thompson & Co Ltd v. C.I.R.* accordingly seems to be that whereas in the former the purchase of the foreign currency had no connection with the company's business, and amounted merely to a speculation, on the other hand in the *Thompson* case the transaction had such a connection with the company's business.

In this connection reference may be made also to the case of *Imperial Tobacco Co (of Great Britain and Ireland) v. Kelly* (22 A.T.C. 137; 25 T.C. 292) where also foreign currency was purchased to meet future commitments. The company in that case had bought dollars in the United Kingdom which were credited to its banking account in the U.S.A. The dollars were subsequently compulsorily acquired by the Treasury under the Defence (Finance) Regulations, 1939, and the company realized a profit on the transaction, owing to the increased value on the exchange. It was held that this profit was a trading profit for the purposes of both income tax and national defence contribution. It is important to observe that the acquisition of the dollars was not a speculation, as it was regarded as being in the *Thompson* case.

Section 21 of the Finance Act, 1953

In conclusion, another statutory provision which is related to fluctuations in rates of exchange is Section 21 of the Finance Act, 1953. This section

releases blocked income from abroad from the liability to charge in the United Kingdom for the year in which the income arises. However, upon the Commissioners being satisfied that the income has become remittable, the income will be charged to tax for the years of assessment in which it would otherwise have been assessed. Fluctuations in exchange rates may have occurred in the meantime, but they will be ignored. The

overseas income, as it becomes chargeable, will be brought in at its value *at the date* when it is considered by the Commissioners to have become remittable. Such value will be the normal market value in the United Kingdom as at that date; but if there is no market value in the United Kingdom then the value according to the official rate of exchange in the country where the income arose, will be taken.

AFRICAN COMMENTARY—VII

by ROBERT E. ELLMER, M.A.(Cantab.), A.C.A., A.C.I.S.

Senior Lecturer in Accountancy and Statistics at the Royal Technical College of East Africa, Nairobi, Kenya.

Operations of a Charitable Trust in East Africa

FINDING that it was a 'valid charitable trust' the Court of Appeal for Eastern Africa sitting in Nairobi, recently (as reported in the *East African Standard*), annulled assessments on the Sheikh Fazel Ilahi Noordin Charitable Trust for the years 1942-51. The assessments and penalties, totalling £180,000, were detailed in a Supreme Court judgment by Mr Justice Forbes when the trustees had appealed against the Income Tax Commissioner's assessments on the ground that the trust had believed its income to be exempt from tax.

In his judgment (read and supported by the President, Sir Newnham Worley), the Vice-President of the Court, Sir Ronald Sinclair, said he could not see, however, how the trust could have held its tax-exemption belief for the years 1951-53. This was after requests for returns and balance sheets had been made by the Commissioner. Although not so bad as to warrant the full penalty, there had been wilful neglect by the trust over this period, and, as no returns were ever furnished for those years, the Court felt a double tax penalty should be imposed. The basic tax for the three years should, however, first be reduced by the amount assessed for some sales of property by the trust.

The costs order of the Supreme Court was set aside, and, as the trust had not wholly succeeded in its appeal, it was ordered that the Commissioner of Income Tax should pay only three-quarters of the trustee's costs of the appeal.

The judgment referred to the trust's contention that it was a trust of public character, and that its income was applied in perpetuity for the benefit of or towards the relief of poor and needy Muslims in Mecca and Medina. The Supreme

Court judge had held that the trust was neither a valid charitable trust nor a trust of a public character on the grounds that the designated class of beneficiaries was not sufficiently precise, and that a clause of the trust deed would enable the settlor (the late Sheikh Fazel Ilahi) to direct profits to himself without having to account for them. It had also been the judge's opinion that the 'poor and needy Muslims in Mecca and Medina' did not relate to any body settled in a particular area, that it was an indeterminate class drawn from all over the world, and subject to infinite fluctuation.

The Court of Appeal was unable to agree with these conclusions, and the fact that the community to be benefited was wholly outside Kenya did not invalidate the trust.

In their view there was no substance in the contention that the word 'benefit' had a much wider meaning than 'relief', and authorized application of the trust funds for non-charitable purposes.

The Court also accepted the trust's submission that properties, which had been sold, had been in the nature of gifts, and had not been profit-making sales liable to tax.

Rapid Industrial Progress in Kenya

Spectacular development of Kenya's industry in recent years had made it an important counterpart to the advance in agriculture, the Minister for Commerce, Mr Hope-Jones said recently in the Kenya Legislative Council (as reported in the *East African Standard*).

During the past nine years there had been nearly a 600 per cent increase in the value of Kenya's industrial products. The colony was achieving a better balance in its economy, and

was becoming less dependent on the importation of everyday necessities.

'It is my belief that those investors who put their confidence in Kenya are unlikely to be disappointed', said Mr Hope-Jones.

Investment in a cement factory at Mombasa had been so increased that its capacity would reach about 210,000 tons a year. This was a great industrial achievement based entirely on private enterprise.

One of the world's leading paper manufacturers had decided to establish a factory in Kenya, and this would involve an eventual commitment of about £750,000. The project might soon lead to even greater investment, and this was particularly significant from the point of view of the Colony's growing forestry industry, and the surplus products that would become available.

Another world-famous firm had invested £500,000 in a factory which would manufacture soap and soap products, and one of the largest European distributors of oil products had decided to set up an organization in Kenya.

For the first time for many years the value of gold produced in the Colony had increased —

by 50 per cent. The Government could claim a share of the credit because of its policy of granting loans for gold-mining development. This had prevented the industry going out of existence, as it had done in many other countries.

Income Tax in East Africa

Writing in the *East African Economics Review* for July 1957 on the Report of the East African Commission of Inquiry on Income Tax¹, Professor David Walker, of the University College of East Africa, summarizes the finding of the Commission as follows:

'The changes that the Commission recommend broadly speaking cancel each other out as far as their effect on revenue is concerned. The proposed increases in company taxation, and changes in the method of computing annual values would tend to increase revenue by about one million pounds a year. On the other hand, the changes in personal income tax rates and allowances and surtax would tend to reduce revenue by £830,000.'

Professor Walker gives the following interesting table to be studied in connection with his article:

¹ See *The Accountant* dated July 6th, 1957.

Tax Payable in Various Countries

Income	*Family	Kenya	Uganda Tanganyika Zanzibar	South Africa	Northern Rhodesia	Ghana	India	United Kingdom
£		£	£	£	£	£	£	£
700	A	56	56	60	26	9	36	112
	B	26	26	28	—	5	32	74
	C	5	5	7	—	3	32	17
1,000	A	120	113	96	56	23	75	211
	B	59	59	62	13	15	71	169
	C	28	28	21	—	10	71	86
1,500	A	242	216	158	131	65	164	374
	B	153	140	115	63	50	160	334
	C	93	91	74	20	40	160	249
2,000	A	385	340	223	224	138	351	542
	B	284	253	170	138	115	347	499
	C	207	186	130	95	100	347	414
2,500	A	551	457	335	419	220	607	802
	B	450	399	273	250	190	603	759
	C	369	329	232	208	175	603	674
5,000	A	1,763	1,606	1,366	1,356	884	2,146	2,327
	B	1,662	1,518	1,258	1,107	828	2,142	2,284
	C	1,582	1,448	1,218	1,064	790	2,142	2,199
10,000	A	5,148	4,849	4,209	3,669	3,108	6,214	6,127
	B	5,046	4,762	4,012	3,356	3,040	6,210	6,084
	C	4,989	4,692*	3,971	3,314	2,995	6,210	5,999

* A=single. B=married. C=married, two children.

THE STUDY OF TAXATION

GUIDANCE FOR STUDENTS

by C. H. KOHLER, F.C.A.

MY object in this address is to emphasize the importance of taxation and to interest you in its study and practical application.

I shall attempt this assignment not as an expert or specialist but as a general practitioner in a small firm concerned with a variety of other professional work. I am speaking to you because I have derived satisfaction from setting up computations and solving problems. I have found that the work gives scope for clear thinking, imagination and the writing of careful prose. It brings us into close touch with our clients and their problems and on occasions enables us to offer helpful advice and service.

I intend to deal briefly with study for the purpose of examinations, with post-qualification reading, with the practical application of book learning and then to close with a few general reflections and conclusions.

Examinations Syllabus

Let us look for a few moments at the syllabus of the examinations. In the Intermediate there are six papers of which one is entitled 'Taxation and cost accounting' while the Final examination comprises seven papers with one wholly devoted to 'Taxation'. Obviously quite a lot of your reading must be concentrated on the study of income tax, surtax and profits tax.

However, the relatively short period of articles and examinations will not exhaust your interest in the subject. The time will come when your concern with these imposts will be personal rather than academic, for the more successful your career the larger the slice of your earnings that will find its way to the Inland Revenue.

The importance of taxation is largely due to its impact on the pocket or banking account of the individual and the corporate body. When over half a person's income is absorbed in direct taxation it is advisable to make sure that the assessments are in accordance with law and that the underlying figures are correct.

An address given to The Chartered Accountant Students' Society of London, in the Oak Hall of the Institute on February 25th, 1957. Mr E. Kenneth Wright, M.A., F.C.A., was in the chair.

If you remain in the office of a practising accountant a lot of your time will be spent on the tax affairs of your clients but if you go into industry you will also be exercised by this subject. Although the accountant in an office or factory is not normally required to work out detailed computations he is expected to contribute informed and useful comments on the many business proposals that involve tax repercussions.



Mr C. H. Kohler

Study for Examinations

Let us now turn to the study of taxation for examinations. At once we are confronted with the difficulty that the syllabus is not normally allied with your day-to-day work. Your reading in auditing and accountancy is clarified and exemplified by practical work in the office but most of the taxation work is undertaken by partners or seniors. This is regrettable but largely unavoidable. The more involved income tax computations and returns require continuity of treatment and normally the work can only be delegated to a clerk who is knowledgeable, experienced and personally acquainted with the particular client and his affairs. After all, this kind of work is done for a fee and directed towards the

ascertainment of a liability: the client can therefore rightly expect that the work will be done expeditiously and with a high degree of skill.

You need not be unduly worried because your early experience is so largely theoretical. The medical student learns about the structure of the human body before carving it up and you must be grounded in the theory and knowledge of taxation before you can determine, on your own responsibility, how much tax a company or person needs to pay. The essential requirement is to obtain, as soon as possible, an overall view of the whole field of taxation. You should try to get a general understanding of the purposes and principles of taxation before mastering a particular schedule or relief.

Elementary Textbooks and Income Tax Fundamentals

The best general introduction to the principles of income tax is a simple textbook written by an expert. Read through one of the elementary books, such as

Income Tax Principles, by H. A. R. J. Wilson, without pausing at difficult passages. You will thereby get a bird's-eye view of the scope of the subject and a general idea of the aims and methods of taxation. You will obtain a mental framework into which particular pieces will later find their appropriate places.

You will quickly learn that income tax is the creation of statute and that the law is largely embodied and consolidated in the five hundred odd Sections of the Income Tax Act, 1952. This fundamental Act and subsequent annual Finance Acts set out the basic law applicable to income tax. Cases in the Courts are important and relevant in that they interpret and clarify the underlying law but they do not of themselves create law. Their function is rather to expound or apply words contained in the Acts.

The importance of the statutes cannot be over-emphasized. Profits are only taxable if they are derived from one of the designated sources set out in Schedules A to E of the Taxing Acts.

This statement can be illustrated by homely examples. Should the secretary gratuitously hand each of you a guinea on leaving this room then the money would not be taxable in your hands as it could not be brought within any of the designated sources that give rise to liability. On the other hand, if at the close of this lecture a hat were passed from hand to hand for my benefit then the proceeds – assuming they amounted to over one penny – might be vulnerable to assessment. To determine the question one could profitably browse among the reports of decided cases and dwell on Easter offerings for clergymen, benefit matches of professional cricketers and the tips received by taxi drivers.

However, we are straying from the main point, which is, that early in your articles you should read the whole of an elementary textbook on income tax. Later, you can supplement this reading by your prescribed study course, by attendance at lectures and by discussions with practitioners and students. Accept the necessity for your early studies to be theoretical and based on reading and the answering of questions. Your immediate aim is to pass examinations and the books and test questions are skilfully directed to that end.

Other Reading for Students

What other aids can one recommend for study and the passing of examinations? The brief answer is any information that is relevant, capable of easy assimilation and quickly accessible. In this connection I would suggest some supplementary reading outside your prescribed textbooks.

Such reading need not occupy too much of your restricted study time providing you open the book with a fresh mind and read with concentration. Half an hour spent in reading the report of a leading income tax case will provide an instructive and absorbing theme and an invaluable introduction to the interpretation and clarification of statute law. It will make

you aware of the importance of fine distinctions and of exactitude in the use of the English language. Many of the cases make entertaining reading because they deal with everyday events of human interest and are described in lucid sequential prose.

As sample reading I would suggest cricketers turn to page 433 of Volume VI of the *Annotated Tax Cases* and read the report of *Seymour v. Reed* which was decided in the House of Lords in 1927. It concerns a professional county cricketer and the taxability of the proceeds from his benefit match. Footballers can turn with profit to pages 56 and 57 of Volume XX of the *Annotated Tax Cases* and read of the less favourable tax treatment afforded to professional footballers in cases decided in 1941 (*Corbett v. Duff*; *Dale v. Duff* and *Feebery v. Abbott*).

Another instructive book is the final report of the Royal Commission on the Taxation of Profits and Income published by the Stationery Office at 12s 6d. You cannot hope to read all the 487 pages, but you can broaden your knowledge of economics and of law and of industry by selecting those headings that coincide with reading in your textbooks. You will thereby see particular legislation in the light of the country's economy and better understand the purpose and effects of fiscal measures. The book contains informative and provocative commentaries on capital gains, stock and the computation of profits, and on double taxation relief and other topical subjects.

Student Society Lectures

I believe that it is advisable to attend some of the lectures organized by students' societies. I say 'some' and not 'all' because there are those who learn better from books than through the spoken word. There is, however, a substantial advantage in listening to speakers who talk about topical and practical subjects that are not customarily dealt with at length in the textbooks. Thereby you enlarge your understanding, keep up to date with the shifting emphasis of law and often obtain light on problems that cannot be easily illustrated in students' books. There is also the opportunity of asking questions and of meeting other students and discussing common problems.

In particular I would commend to you the annual week-end course at Oxford. Here is a rare opportunity to live for a few days in college and to sample and enjoy the life of an undergraduate. You will have the privacy of a sitting-room, the privilege of eating your meals in Hall and the pleasure of stimulating discussions and other diversions that will often stretch into the late hours of the night. Sandwiched between the joys of eating and drinking come the pre-arranged lectures and I cannot easily conceive a talk of greater use than that delivered in 1955 by Mr W. A. Purdie, a Senior Principal Inspector of Taxes, on 'Schedule D (Case I) – The Approach to Difficult Problems'. It will be worth your while to turn to this lecture, which is fully reported in the November 12th and 19th, 1955, issues of *The Accountant*. Read it with care as it

gives with great clarity the views of an Inland Revenue expert on that common but most difficult problem of measuring and quantifying the capital element contained in expenditure on the repair and alteration of premises. There is no standard textbook solution to such problems as each item of expenditure is incurred for a particular purpose and is therefore unique. The lecturer recognizes all the difficulties but is constructive and practical in advising on the best methods of marshalling information and of presenting facts to the Inland Revenue.

Practical Experience

Now let me make three suggestions for gaining practical experience.

First, when you have taken a part in the audit and preparation of accounts and are familiar with the trade and the nature of its income and outgoings, ask to see the Case I and profits tax computations based on those accounts. Follow through the adjustments and seek to understand the claim for capital allowances. It will be of even more use if you first attempt your own computations from the figures on the files. You may thereby have the satisfaction of spotting an omission or error in your senior's workings. Should the mistake be that of your principal then have the tact to refer to it as 'an adjusting entry' rather than an error!

Another useful exercise is to devil for a senior. Do not misunderstand the operative verb. By 'devilling' I mean looking up relevant cases or statutes. For example, a book-keeper has embezzled £1,000 and this loss is shown in a company's accounts under the heading of defalcations. In this instance devilling consists of looking in the index of textbooks and in *Harrison's Tax Cases* for all references to embezzlement or defalcations and then marking your findings and showing them to your senior. In this way you learn a lot about the particular subject and, more important, about the means of finding comment and law relevant to the solution of a problem.

Thirdly, I would suggest that you ask intelligent questions. Whenever you are doing work with or for a senior and an unusual taxation point is encountered then ask for an explanation. It may be a profits tax notice or a dividend counterfoil from a company incorporated abroad. Whatever the question the man in charge will be stimulated by your interest and glad to display his knowledge and you will learn more about the law and practice of taxation.

Post-qualification Study

I have indicated some ways by which students can increase their knowledge of taxation but what about the young practitioner? How can he become a better craftsman? The immediate answer is a short one. He should consider himself a student until the day of his retirement. He must endeavour to keep in touch with new legislation and be ready to increase his

knowledge by mastering some of the remoter reliefs and assessments.

How can the busy practitioner find time for the work involved? Again, I will be presumptuous and give a threefold answer. By doing, reading and discussing.

Firstly by doing the job. There is no better way of learning a job than by trying to do it. Thereby we are forced to concentrate, obliged to assemble facts and to understand the problem and finally to express our conclusions in comprehensible prose. I will later give you a short example which illustrates the practical approach.

The second necessity is a certain amount of reading. He needs to know the purpose and effect of each new Finance Act and to remember the outline of cases that are likely to benefit or harm his clients. However, to read and master the annual statutes and case law would be too exacting and not normally necessary.

Clearly the practitioner must largely rely on abbreviated selections for keeping in touch with the law. He should buy and keep on his shelves the full reports of decided cases and all Finance Acts and turn to them for guidance and instruction, but his general acquaintance with their relevant contents comes through a reading of a responsible daily newspaper and of articles in *The Accountant*, supplemented by selected readings from other periodicals and papers.

In this connection I would commend the quarterly *British Tax Review* for its practical articles on topical subjects and for its helpful commentary on recent cases; another useful journal is the monthly publication *Accountancy*. One other paper worth mentioning is *The Financial Times*. You may not be able to read it daily, but try to get hold of the short, witty, informative articles on tax subjects that appear from time to time on the middle page.

Textbooks

Perhaps at this stage I should say a few words about textbooks. Always buy the very best that you can afford and keep them up to date by ordering new editions and supplements. To possess good books is to have learned Counsel by one's side.

I would suggest that a library should be founded on three sets of books. Firstly, *Simon's Income Tax*. These indispensable volumes house the fullest and most authoritative commentary on the law and practice of income tax and embody the statutes and a detailed index. Subscribers to the service are issued with loose pages to replace out-of-date text and to incorporate new legislation. Secondly the library should contain *Harrison's Index to Tax Cases*. This book is issued by the Stationery Office and is kept up to date by the issue of supplements. The greater part of this book is laid out as an index arranged according to subject-matter.

Thirdly, I suggest that you build up a library of reported tax cases. The leather-bound backs look impressive in the bookcase and the full reports of

judgments are often essential to the understanding of particular sections. There are several series of reported cases but most accountants favour *The Annotated Tax Cases*, being reports of the income tax, surtax, profits tax, and other duty cases decided in the Courts of England and Scotland. The cases are followed by short but illuminating notes on the judgments.

I will not tire you by reciting the names of other helpful books, but I would remind you that the Institute has an excellent reference and lending library in London and that many of the district societies provide library facilities.

The Oxford Course

A third method of pleasantly increasing knowledge and solving difficulties is by attending lectures and discussions. At the top of the list I would place the Institute's Summer Course at Christ Church, Oxford.

The general arrangements and conduct of these courses are similar to those obtaining at the students' week-ends, but the senior course lasts four to five days and provides more opportunities for lectures, informal discussions, excursions and games. While these gatherings provide plenty of mental stimulation, they also allow time for relaxation—in fact, I have often heard choruses and snatches of song coming from the buttery at quite a late hour!

I import this reflection because I believe that the main value of the course is in the opportunity of meeting young and elderly members: some in practice, some in business and a few in the nationalized industries. It is good to have the opportunity of discussing with them common problems in an atmosphere of unhurried informality. I have once or twice attended these courses with the weight of serious tax problems on my mind and in all instances I was enabled to solve the perplexities by sharing them with others and listening to their comments and advice.

Other opportunities for discussion are provided at the Institute's occasional autumn lecture meetings, at district society luncheons and by the organized discussion groups that meet about once a month in several centres. Even if you are unable to attend the courses arranged by the Institute it is advisable to buy a copy of the printed proceedings as the lectures customarily cover topics of current professional interest outside of the textbooks. One example comes to mind, namely, the talk by T. A. Hamilton Baynes on 'Valuation of holdings in private limited companies for probate purposes', at the autumn meeting of the Institute held at Torquay in 1951.

A Problem to Suit Articled Clerks

I have spoken at some length on means of acquiring knowledge and of widening experience and it may now be helpful to illustrate the practical approach to a particular problem.

The telephone rings and one recognizes the voice of Smith, the estate agent. He expresses good wishes for Christmas and then poses a question. If he were to give each of his two pupils a suit for Christmas would the young men have to pay income tax on the gifts?

The experienced practitioner knows that these apparently simple questions are seldom capable of quick, authoritative and unqualified answers as so much depends on the surrounding facts. He therefore suggests a meeting, perhaps over the lunch table, at which he can assemble more facts about the proposal.

Here let me recite the most important rule that applies to all tax problems: Gather without preconception all facts that bear on the problem.

In this example one would need to know whether the estate agent intended to bear the cost out of his own purse or whether it was to be a charge on his firm's profits. Also, one would ask whether each of the pupils enjoyed an income in excess of the personal exemption limit. Other questions come readily to mind. Will the giving of suits or other presents become a custom and if so will such gifts extend to a wider circle of clerks and will the presentations be on other occasions than Christmas? What is the cost of the suits? Will they be tailor-made or bought off the peg? Are suits of a particular kind essential to the profession? Who will choose the cloth and cut? Will the tailor be paid by the principal or by the clerks? All such questions are relevant and the facts should be recorded in writing for reference purposes.

Now suppose your inquiries show that the firm will pay the tailor by cheque and request him to make the suits to the pupils' measurements in a quiet grey worsted cloth at a cost of fifteen guineas a suit. What is the next stage in solving the problem?

Looking up References

Here follows the second obvious rule. Correctly apply the law and practice to the particular facts. The best start is to reach for the volume of *Simon's Income Tax* that contains the general index and to look for references under the word 'Gifts'. We are lucky: there are over twenty references including 'Christmas, in kind' and 'employees receiving, charge to tax'. Most of the references refer to numbered articles in Volume II so we open that volume and read the prescribed text.

Fortunately, the appropriate answer is found immediately. The exact wording under 'Gifts in kind' reads: 'Christmas gifts in kind to employees not being "money's worth" are not assessable to income tax under Schedule E'. Authority for this statement is shown to be No. 13 of the Extra-Statutory Concessions in operation at December 31st, 1949. Reference to recent law is bound in the special service volume of *Simon's Income Tax* and in this instance while the supplementary pages show the withdrawal of the relief formerly extended to Christmas gifts of savings certificates, they do not

record any change in the concessionary practice relating to gifts in kind.

A Reservation

A pleasing and authoritative answer can therefore be given to the client, but it may be wise to stress that the exemption is extra-statutory and that it may be withdrawn and that it should not be abused. In this connection the *obiter dicta* of Lord Halsbury, L.C., in *Tennant v. Smith* (3 T.C. 158) is not without relevance, namely:

'I come to the conclusion that the Act refers to money payments made to the person who receives them, though, of course, I do not deny that if substantial things of money value were capable of being turned into money they might for that purpose represent money's worth and be therefore taxable.'

If the Inspector of Taxes sought to regard the suits as a form of remuneration and to assess their money's worth under the provisions of Schedule E then it could be urged that the exchange value was small, because the suits were made to a particular measure and design. In such circumstances the facts assembled at the first interview would come into play.

Other Aids

However, most problems are more difficult, and in relating facts to law one is often puzzled by the complexity of specific sections, particularly if such sections are new legislation and not the subject of enlightening commentaries. Sometimes the drafting is so tortuous that one cannot easily comprehend its meaning or purpose. This difficulty can often be resolved by reference to *Hansard* with its daily reports of the debates in the House of Commons.

If a problem remains intractable despite reading and reflection or if you are doubtful about your conclusions then obtain a second opinion. The weekly paper, *Taxation*, extends a reliable 'second opinion' service to special subscribers at a modest cost while a more authoritative opinion can be obtained from Counsel. It is often in your own and your client's interest to obtain sound advice on remote or technical problems.

There is not much more that I can say about the practical approach. A few generalizations may, however, be helpful. In negotiations with the Inland Revenue play your cards to the best of your ability but see that all cards are placed on the table. If your strong suit is speaking rather than writing then prefer the interview to correspondence. If you have a good case and a lot of tax is involved be persistent even to the point of an appeal and a hearing before the Commissioners. The costs of an appeal are not large and firmness often pays.

The Weight and Incidence of Taxation

In conclusion I promised a few reflections. I will confine these to two subjects relevant to this talk,

namely, the uses of tax knowledge and improved means for its acquisition.

We often hear that much of our tax labours are unproductive and according to some critics unsocial, and that the time and skill devoted to tax avoidance could be more effectively employed in seeking to improve the productivity of industry or in some other work of wider social use.

To some extent the criticism is justified but the blame rests with the Government rather than the practitioner. While so much spending is delegated to the central authorities we shall be burdened with high taxes that subtract from our earnings and profits. This in itself is unpalatable but the problem is intensified by the complexity of recent legislation and by the unfair incidence of taxation due to artificialities and inequities in the measurement of profits. While the load is so heavy and the spread often so unjust it is understandable that taxpayers need and are entitled to expert advice. It is relevant to add that our services are not always directed to helping the rich man and the prosperous company. There is also scope for helping less affluent clients. A deed of covenant between a grandfather and his grandson or a repayment claim for a widow can confer valuable benefits on those of slender means. The main consideration is that we should do our work with care and skill and that we should preserve our professional independence.

A Plea for a Liberal Professional Education

Lastly a few words about acquiring professional knowledge. I here express a personal and perhaps a controversial view. At present I think that articled clerks do too much study by reading and by answering questions in writing and by occasional attendance at lectures. This method is economical and effective for the passing of exams but not, to my mind, sufficiently directed towards a broad and liberal professional education.

I would like all students to have greater opportunities for absorbing fundamentals and of acquiring a wider and more co-ordinated knowledge of subjects within and close to the examination syllabus. I wish that more time could be devoted to supplementary reading so that students could find opportunity to read some of the leading cases referred to in textbooks. It would be good if small groups could meet with an experienced and sympathetic tutor for unhurried discussions on the fundamentals of law and economics. I would like students to be given practice and encouragement in report writing and advice on finding and using sources of information.

I am sure that such instruction would help students and that it would raise the standard of our profession and I have no doubt that these and similar considerations are in the minds of your Committee.

We can best be of service to the community by fully exercising our talents and to that end making a dedicated effort to master the skills that we intend to practice.

Weekly Notes

Mr Gilbert Shepherd retires from the Council of the Institute

The retirement of Mr Gilbert David Shepherd, M.B.E., F.C.A., from the Council of The Institute of Char-



tered Accountants in England and Wales was received with much regret at the Council meeting held on November 6th (reported elsewhere in this issue).

A partner in the firm of Gilbert Shepherd, Owen & Co, Chartered Accountants, of Cardiff, Mr Shepherd was elected to the

Council in 1929 and was President in 1947-48. He was admitted an Associate of the Institute in 1902 and was elected a Fellow in 1910.

Mr Shepherd has been a member of many Institute committees. He was chairman of the Library Committee from 1936-39, vice-chairman of the General Purposes Committee from 1941-46, and from July this year until his retirement he was chairman of the Disciplinary Committee, having previously been the committee's vice-chairman for eight years. He has also served on a large number of subcommittees - in particular the War Bye-law Subcommittee from 1939 until its dissolution in 1953.

Mr Shepherd was chairman of the Institute's first Summer Course in September 1947, and in November 1949 he delivered an address at the Australian Congress on Accounting at Sydney on 'The future role of the accountant'.¹

We are indebted to a member of the Council for sending us the following tribute to Mr Shepherd:

'In the resignation of Mr Gilbert Shepherd, the Council loses one of its most valuable members. He was an enthusiast for integration and was anxious to see the implementation of the scheme during his membership of the Council.

'He joined the Council in 1929 and it is probably true to say that no member of the Institute has ever had its interests more deeply at heart or has taken a more personal interest in its affairs and in the doings of its members.

'The little notebook which he always carried with him and which contained an astonishing amount of information about his colleagues and friends was a by-word with all who knew him. He was called to the position of President half-way through the presidency of Mr Furnival Jones who died at the end of 1946 during his year of office. Mr Shepherd accordingly served for nearly one and a half years as President and

at a very exacting period when all the post-war problems were active. He inaugurated again the personal visits of Presidents to all the district societies; he started and continued an active interest in the Summer Courses held at Oxford and both then and ever since he has been a special friend to young members of the Institute.

'It is, however, not only in that walk of life that he has so much helped other people. In his native City of Cardiff he will always be remembered for his work in connection with hospitals, Civil Defence during the war, and on the Bench. He was indefatigable at meetings of the committees of the Council and to quote only one figure which he mentioned on the day of his retirement, he had attended 1,165 meetings in London, which was 95 per cent of possible attendances.'

New Member of the Council of the Institute

Mr John Colin Montgomery Williams, F.C.A., senior partner in the firm of Tribe, Clarke, Montgomery Williams & Co, Chartered Accountants, of Swansea, was elected a member of the Council of the Institute at the meeting of the Council held on November 6th (see report on another page).

Mr Montgomery Williams, who was born in 1906, was educated at Wycliffe College, Gloucestershire, and was articled in 1924 to the late Mr William R. Thomas, of the Swansea firm of Morgan & Pike, becoming a partner in the firm shortly after being admitted an Associate of the Institute in 1929. He was elected to Fellowship in 1937 and went into practice on his own account in 1938; ten years later he amalgamated his firm with that of Tribe, Clarke, Cawker, Owen & Co to form the present firm.

Mr Montgomery Williams took an active part in the formation of the West Wales Chartered Accountant Students' Society in 1936 and was its President from 1938 to 1940. He has been a member of the Institute's Regional Taxation and Research Committee since 1945 and of his District Society's Committee since 1946. During the year 1951-52, he was President of the South Wales and Monmouthshire Society of Chartered Accountants and has been its honorary secretary since 1954.

For many years Mr Montgomery Williams has been a member of the Council of Governors of Wycliffe College, and in his younger days he played as a wing three-quarter for Swansea Rugby XV; he is now a keen golfer.



¹ Reproduced in *The Accountant* of December 3rd, 10th and 17th, 1949.

Examination Information

We would draw the attention of all articled clerks and bye-law candidates of The Society of Incorporated Accountants to the report of the special and ordinary meetings of the Council of the Institute, held on Wednesday of last week, appearing elsewhere in this issue, in which a full interpretation of clause 16 of the integration scheme between the Institute and the Society is given. This clause deals with the eligibility of articled clerks and bye-law candidates of the Society for future examinations both of the Institute and the Society. The report also makes reference, *inter alia*, to the special position of Incorporated Accountants who are articled to members of the Institute and are in the process of taking the Institute's Final examination.

New Institute Committee

Members of the Institute – particularly those not in practice – will be interested in the announcement, contained in the report of the Council meeting on another page, of the setting up of a Non-Practising Members Consultative Committee to advise the Council on matters affecting members in industry and commerce and to consider any matters which may be referred to it by the Council.

It is no secret that for some time there was

an element of dissatisfaction among members in industry – who now account for approximately one-third of the Institute's total membership (a proportion that will probably be increased with the advent of the 'integrated' members of the Society) – who felt that their views were not adequately represented at Moorgate Place.

The deficiency was partially remedied by the reservation of five places on the Council for members not in practice, and the creation of the new committee is a timely and welcome further step in ensuring that the two main limbs of the membership of what may shortly be the accountancy world's largest professional body, shall have proper representation.

Oxford Historic Buildings Appeal

The Oxford Historic Buildings Appeal has a special interest for many members of The Institute of Chartered Accountants in England and Wales, for the Institute's annual Summer Course has been held in Christ Church for the past eleven years.

We are informed by the Secretary of the Institute that in response to an invitation addressed to all members who have attended these courses, a total of £779 4s 0d has been contributed by them and forwarded to the Appeal Secretary who has been asked to arrange that this amount be earmarked for Christ Church.

Finance and Commerce

After a heavy fall, the stock-markets have staged a largely technical rally. Some new buying has been reported in the equity market but the improvement in prices has exaggerated the amount of support received. The gilt-edged section remains quiet.

C.I.C. Refusal

A slip, gummed to the report and accounts of K.M.S. (Malay States) Rubber Plantations Ltd (we reprint the accounts this week), states that 'since these accounts were printed, a communication has been received from the Capital Issues Committee stating that they are unable to consent to the proposed issue by capitalization of £67,821 12s 0d from general reserve. Therefore special resolutions 3 and 4 will not be put to the meeting'.

There has been a good deal of talk and surmise on the inner workings of the mind of the Capital Issues Committee. Some of its decisions seem so contradictory, one company obtaining sanction where another in apparently similar circumstances fails. No conclusion can be drawn from any one decision but it is interesting to note that this company proposed to make a capital repayment to shareholders and at the same time to write up the shares so reduced by a capitalization of general reserve.

The question of some return of capital to stock-

holders was mentioned by Sir John Hay, the chairman, last year and this year he says that 'after careful examination and consideration, we now propose to make a capital repayment of 8s in respect of each £1 stock'. But it should be clearly understood, he adds, that this is a once-for-all payment and not one that can be repeated. Further, in the expectation that such a payment will not impair earning power, the directors propose to seek authority to write up the capital to its former amount.

Tax in Suspense

Sir John opens his annual statement by pointing out that although trading profit was less than that of the previous year, the net amount is actually greater after deduction of taxation. This is due to the remission of tax, recently granted, in favour of overseas trading corporations. When liability for tax in respect of the year 1955-56 is finally settled, the directors expect to release a part of the sum formerly placed to taxation reserve, and so that this may be reflected in the accounts now presented, £26,000 has been transferred to taxation suspense. Its ultimate destination, says Sir John, will be settled when the liability has been finally determined.

But lest the statement of these welcome remissions, he continues, may leave stockholders with the impression that the company's accountability for tax

As we said, no conclusion can be drawn from any one decision by the Capital Issues Committee. But stockholders of another company, Malakoff Rubber Estates Ltd, have been informed of proposals to do practically the same thing: to repay 2s 6d per 10s stock requiring £62,500 and to capitalize £112,500 in an issue of fully-paid shares. One company can hardly succeed where the other failed.

The market syndicate maintained its bid at £98 17s 1d for both the sixty-three-day and ninety-one-day bills on November 8th. The average discount rate on the shorter maturity was £7 2s 8.52d per cent and on the longer £6 11s 8.42d per cent. This week's offer is £40 million of sixty-three-day and £210 million of ninety-one-day bills.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30th JUNE, 1957

[illegible]

HARMOOD BANNER, LEWIS & MOUNSEY,
Chartered Accountants. } Auditors.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Accounting for Inflation'

SIR, - With reference to Mr Allan's reply to my letter (October 26th issue), although for the sake of simplicity I based my argument on freehold land, the same argument holds good in the case of depreciating fixed assets. For example, assume a ship costing £500,000 in 1937, with a life of twenty years:

	Historic cost basis	Replacement value basis
	£	£
1937	500,000	500,000
1947	500,000	1,000,000
Depreciation to date ..	250,000	500,000
Net book value ..	250,000	500,000
1957	500,000	2,000,000
Depreciation to date ..	500,000	2,000,000
Net book value ..	Nil	Nil

Mr Allan is in effect saying that because at the end of its life the asset is written down to nil under either method, then there is no point in adjusting the value at interim periods. In 1947, for instance, he would still show the book value as £250,000 (which in terms of 1947 currency represents £1 million less depreciation £750,000). It is generally accepted, however, that depreciation should be charged on a consistent basis over the life of an asset, and Part IV of the Eighth Schedule to the Companies Act states that excess depreciation is to be treated as a reserve. I see no reason to depart from this basis when the balance sheet is uniformly expressed in terms of the current pound.

Yours faithfully,

London, EC3.

A. W. BOWEN.

Receipts and the Cheques Act

SIR, - In your issue of October 26th you published a letter from me in which I advocated the use of non-returnable payment slips. Mr Mortimer, in your issue of November 9th, wants to maintain the system of returnable payment documents, according to the circular which he is sending out to his client's suppliers. In my opinion this is unnecessary and wasteful.

To judge from my own experience, there is, I am glad to say, an increasing tendency to use payment slips. I have seen some admirable examples, which set out the required details clearly and simply. I am sure that much of the very considerable saving of expense which results from the discontinuance of receipts is lost if payment documents have to be sent back to payers.

The payment slip system should be of just as much value to the payer as to the payee. The payer is spared what must be the quite formidable task, especially where receipts are not issued, of ensuring that statements or invoices are in fact returned. These documents need never leave his possession, and it should be a simple matter to connect them with the relevant payments. I would have thought, too, that the preparation of accurate accounts would be very much facilitated. Altogether, any small amount of extra time which the making out of payment slips might entail would be more than compensated for in other directions.

I urge Mr Mortimer, and other accountants who think as he does, to give this matter further consideration.

Yours faithfully,

Richmond, Surrey.

C. S. HARDIMAN.

SIR, - The Cheques Act, 1957, has saved at a stroke the many hours of irksome and wasted effort spent by business houses and banks in making and examining cheque endorsements. Section 3, also, has sounded the death knell of the receipt, which had already outlived its useful life as a form of 'internal check', and everyone, except the Treasury, should be very pleased about it.

It is refreshing to find that so many businesses have seized the opportunity, as my company has, to stop sending receipts to customers who send cheques in payment of their accounts and to encourage suppliers to do the same. The response has been most gratifying but there is a certain pattern to the replies received by my company; I wonder whether your readers have had the same experience and can suggest reasons for it.

Many of those who continue to require receipts, whether on the back of their cheques or not, are doubtless postponing a decision until they see what their neighbours are doing, or until their book-keeping system has been reviewed or their existing stationery used up. I notice a very high proportion of local authorities and public bodies among them. Is there some special reason for this? Among the relatively small number of businesses who continue to expect receipts for their cheques are many, both large and small, who imply that they require them only to satisfy their auditors. The reason may sometimes have been given from force of habit, but this may not be so in all cases. If auditors give this advice, what would be their reasons for giving it? Any practising accountant who finds that his client has misquoted him in this matter would do the rest of us a good turn by pointing this out to him.

Yours faithfully,

Ealing, London, W5.

D. A. GRANT.

SIR, - Apropos Mr Spencer G. Maurice's footnote to my letter published in your issue of November 2nd, would he please let me know what in practice, *vis-à-vis* the Inspector of Taxes, is the difference between, say, a builder's account receipted either by the wording of a receipt being written on the actual account, or by a separate form of receipt, and the account supported by a paid cheque, either endorsed or unendorsed.

Further, what does Mr Maurice mean when he says 'the taxpayer might find himself put to strict proof of his claims'. Surely there can be no stricter proof than the present practice of the declaration as laid down by the Act and a receipted account.

Yours faithfully,

Cheam, Surrey.

F. A. MATTHEWS.

[Mr Spencer G. Maurice writes: Clearly, what is necessary to support the maintenance claim is evidence that the amount claimed is actually paid by the taxpayer. The most convenient evidence is the receipted account. The account on its own does not help, and a paid cheque may well relate to a number of items included in more than one account, not all of which may be subjects of a claim. On the wider issue, it must not be forgotten that the primary object of the Cheques Act is to obviate the need for endorsement of cheques; when it is seen in that light it becomes apparent that the Legislature, in Section 3, may have intended to do no more than to make an unendorsed cheque as good evidence of payment after the Act as an endorsed cheque was before it. There appears to be no justification for supposing that the Act sets out to alter the law relating to receipts.]

Decimal Currency

SIR, - The topic of decimal currency and weights and measures appears to have lapsed without, I believe, a comment from the Board of Trade, the Federation of British Industries, the banks, etc. What complacency! Our foreign competitors should be pleased!

Perhaps the small or medium businesses do not matter as, without punched cards, computers, etc., which they cannot afford, they carry on as best they can (their accountants, at least, knowing that wage, invoice, costing and other computations increase their overheads needlessly). Even the office machines they *can* afford are more expensive than they need be if only 19s 11½d were scrapped.

It is possible that the passing of a two-clause Act of Parliament in such 'radical' terms as '(1) With effect from January 1st, 1958, there will be F(farthings) 1,000 in £1 with existing coins in proportion except that 1d and ½d will be F.005 and F.002 respectively. (2) The present notes and coins, pending gradual replacement by a new issue of currency, will continue to be legal tender', would require too many (all night) sittings!

I therefore suggest that a national trade organization issue, and advertise a full conversion table on the lines of clause (1) above and that businesses go ahead and adopt it. The essential cheques, invoices,

statements, etc., can be endorsed as convertible to (stone age) currency by reference to this table. May I finally comment, as Governments are partial to note issues, that some of your readers, who do not make trouser pockets, might support the issue of a F.250 note. Sir, if some of your readers have other and better ideas, perhaps they will put them forward.

Yours faithfully,

Kenley, Surrey.

S. J. RUDELL.

SIR, - With reference to the letter printed in your issue of September 14th, 1957, the following notes, from one who was in charge of a professional office in Cyprus for two years before and two years after August 1st, 1955, may be of some interest to your readers.

The change-over from shillings and piastres to mils was achieved very smoothly by a complete change of all metal coins which was virtually completed in a comparatively short while.

Prior to this change, accounting machines had to be specially made to deal with shillings and piastres and consequently only the largest organizations could afford the high capital cost involved. This is now changed and the entire business community is enjoying the facilities afforded by accounting machines of all types from cash registers upwards.

In the shops and markets, of course, prices are still quoted in shillings and piastres and I suppose this will continue for many years to come. However, this in no way detracts from the tremendous advantages which have resulted from the very successful operation of decimalizing the coinage of the Island of Cyprus.

Yours faithfully,

Addis Ababa,
Ethiopia.

J. B. PURRY.

Encouraging the Small Investor

SIR, - It was high time that somebody wrote what Mr S. J. McAdden has so competently expressed in his article 'Pestilential profit' in your issue of November 2nd. There is no doubt that the misconceptions on profit assist the work of the agitator in British industry today. While everything should be done to educate the industrial public on the true nature of the surplus earned by industry, I do not think that this alone will completely solve this problem.

There is a division in the national life between those who own shares and those who do not. This fact in itself helps to create a class distinction which is still at the root of much of the industrial trouble in the life of the nation. This distinction will not be swept away until many more people have an individual stake in the ownership of British industry.

Can something not be done quickly to make the ownership and acquisition of shares in joint-stock companies a much more simple business than it is today?

Yours faithfully,

London, E4.

HUGO O'HEAR.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, November 6th, 1957, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. H. Lawson, C.B.E., President, in the chair; Mr W. L. Barrows, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., T. A. Hamilton Baynes, J. H. Bell, J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, D. A. Clarke, J. Clayton, C. Croxton-Smith, W. G. Densem, A. S. H. Dicker, M.B.E., W. W. Fea, Sir Harold Gillett, M.C., Messrs J. Godfrey, P. F. Granger, D. V. House, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs R. B. Leech, M.B.E., T.D., R. McNeil, J. H. Mann, M.B.E., W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., J. E. Talbot, E. D. Taylor, G. L. C. Touche, A. D. Walker, V. Walton, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Resignation from Council

The Council received with much regret the resignation of Mr Gilbert David Shepherd, M.B.E., F.C.A., Cardiff, from his membership of the Council. Mr Shepherd had been a member of the Council since 1929 and was President in 1947-48.

Election to the Council

Mr John Colin Montgomery Williams, F.C.A., Swansea, was elected as a member of the Council to fill the vacancy caused by the resignation of Mr Gilbert David Shepherd, M.B.E., F.C.A.

Reduction in Period of Service under Articles

Five applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

Exemption from the Intermediate Examination

(a) Thirty-three applications under bye-law 85 (a) for exemption from the Intermediate examination were acceded to.

(b) Three applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to.

Representation on the Council of the Views of Non-practising Members of the Institute

The Council decided that a committee be set up to be known as the Non-Practising Members' Consultative Committee with the following terms of reference:

- (i) To consider and report on any matters submitted to it by the Council.
- (ii) To put before the Council its opinions on any matters affecting members in industry or commerce,

and that the membership of the committee be as follows:

The President and the Vice-President.

The Chairman and Vice-Chairman of the General Purposes Committee.

The members of the Council who are not in practice.

Two non-practising members nominated by the Taxation and Research Committee.

Six non-practising members to be co-opted by the committee itself.

Eligibility for Examinations - Articled Clerks and Bye-law Candidates of the Society of Incorporated Accountants

1. Clause 16 of the scheme for the integration of The Society of Incorporated Accountants with The Institute of Chartered Accountants in England and Wales dated December 5th, 1956, provides:

Examinations of the Society

16. (a) As from the effective date or such later date (if any) as the Councils of the Institute and of the Society may agree, the Society shall cease to hold any further examinations; but the following examinations shall continue to be held as examinations of the Society in accordance with sub-clause (b) of this clause for the period below set forth (or for such longer period or periods as the Council of the Institute may think fit) provided that, in the case of the Special Final examination held in the Union of South Africa and in Southern Rhodesia, such examination shall only be held if and so long as the Council of the Institute considers it necessary and practicable to do so:

Intermediate examination held in England and Wales ..	} until December 1st, 1959
Intermediate examination held in Scotland	
Intermediate examination held in Ireland	
Final examination held in England and Wales ..	} until December 1st, 1961
Final examination held in Scotland	
Final examination held in Ireland	
Special Final examination held in the Union of South Africa and in Southern Rhodesia ..	} until December 1st, 1967

(b) Such examinations shall be held by the Institute (which shall be solely responsible for all matters relating thereto) in consultation, where appropriate, with the Scottish or Irish Institutes, as nearly as may be in accordance with the relevant provisions of the constitution of the Society as in force at the date of publication of this scheme, with such modifications (if any) as the Council of the Institute may consider necessary or desirable. But no person other than a person who is or has been either an articled clerk articulated to a member of the Society or a bye-law candidate of the Society shall be eligible to sit for any such examination.

(c) If an articled clerk or bye-law candidate of the Society has not passed an Intermediate examination of the Society held prior to the date of publication of this scheme (or if he has not been duly exempted therefrom prior to that date) he shall only become eligible for

admission to membership of the Institute if he passes the Final examination of the Institute.'

2. In this statement, unless inconsistent with the subject or context, the terms 'candidate', 'articled clerk' and 'bye-law candidate' include those who, at the effective date, had completed their articles with a member of the Society or had completed their qualifying service in accordance with the special provisions of the bye-laws of the Society.

3. Bye-law 120 of the Institute provides that 'the Council may issue from time to time such regulations as it may consider necessary for the purpose of carrying into effect the scheme of integration referred to in clause 34 of the supplemental Charter'.

4. Regulations relating to examinations to be held from January 1st, 1958, have been made by the Council and are embodied in this statement which is applicable to those articled clerks and bye-law candidates of The Society of Incorporated Accountants who may make application under the scheme.

(I) CHOICE OF EXAMINATIONS AVAILABLE

(a) An articled clerk or bye-law candidate who has NOT passed the Intermediate examination of the Society held prior to December 20th, 1956, the date of publication of the scheme, or who has not been duly exempted from that examination before that date, may elect to sit for the Intermediate examination of the Institute or of the Society; he must sit for the Final examination of the Institute.

(b) An articled clerk or bye-law candidate who has passed the Intermediate examination of the Society held prior to December 20th, 1956, may elect to sit for the Final examination of the Institute or of the Society.

(c) An articled clerk or bye-law candidate who has been duly exempted from the Intermediate examination of the Society before December 20th, 1956, may elect to sit for the Final examination of the Institute or of the Society.

(d) An articled clerk or bye-law candidate who has been duly exempted or who shall be duly exempted from the Intermediate examination of the Society on or after December 20th, 1956, must sit for the Final examination of the Institute.

PROVIDED THAT

in all cases in (a) to (c) above (but subject to paragraph (V) below) where a candidate elects to present himself for an Intermediate examination of the Society he shall not subsequently be permitted to present himself for an Intermediate examination of the Institute (or vice versa); and that where a candidate elects to present himself for a Final examination of the Society he shall not subsequently be permitted to present himself for a Final examination of the Institute (or vice versa).

(II) TIME AT WHICH EXAMINATIONS MAY BE TAKEN

Any candidate presenting himself for an examination of the Institute, whether he elects to do so in accordance with the choice offered above or for any other reason, must comply with the rules of eligibility stated below under 'Institute examinations'.

Any candidate who presents himself for an examina-

tion of the Society must comply with the rules of eligibility stated below under 'Society examinations'.

(a) Institute examinations

According to the Royal Charters and bye-laws of the Institute, that is to say:

Intermediate (see paragraphs (VII) and (VIII) below):

those serving for three years: on completion of one year of service;

those serving for more than three years: on completion of two years of service.

Final (see paragraph (IX) below):

those serving for three years: one year after passing the Intermediate examination but in any case not earlier than within the last three months of service;

those serving for more than three years: two years after passing the Intermediate examination but in any case not earlier than within the last three months of service.

(Intending candidates should be acquainted with the detailed regulations set out in the booklet *General Information and Syllabus of Examinations*, which can be obtained on application from the Institute.)

(b) Society examinations

According to the regulations of the Society, that is to say:

Intermediate:

three-year articles: on completion of one year of service;

five-year articles: on completion of two years of service;

under the bye-laws: on completion of three years of service (graduates on completion of two years of service).

Final:

three-year articles:

Part I: during the last six months of service;

Part II: on completion of service;

Parts I and II together: on completion of service;

five-year articles:

Part I: on completion of three and a half years of service;

Part II: during the last year of service;

Parts I and II together: during the last year of service;

under the bye-laws:

Part I: on completion of four and a half years of service (graduates: on completion of three years of service);

Part II: on completion of six years of service (graduates: on completion of four years of service);

Parts I and II together: on completion of six years of service (graduates: on completion of four years of service).

(III) SOCIETY STUDENTS ALSO ARTICLED TO MEMBERS OF THE INSTITUTE AT THE EFFECTIVE DATE

An articled clerk or bye-law candidate of the Society who at the effective date of the scheme had completed a term of service as an articled clerk of the Institute or who was serving as such at that date may, subject to the provisions of (I) and (II) above, elect to take the examination(s) appropriate to his status as an articled clerk or bye-law candidate of the Society, or, subject to the provisions of (II) above, the examination(s) appropriate to a clerk articled to a member of the Institute.

(IV) INCORPORATED ACCOUNTANTS ARTICLED TO MEMBERS OF THE INSTITUTE

An incorporated accountant who is eligible under the scheme of integration to apply for admission as a member of the Institute and who at the effective date was serving under articles with a member of the Institute, may if he wishes defer his application for admission to membership in order to complete his service under articles and pass the Final examination. Any incorporated accountant who elects to defer his application for admission in this way will be permitted to present himself for the Final examination of the Institute under the normal rules of eligibility (see paragraph (IX) below).

Any person admitted to membership of the Institute will not be permitted to present himself for any examination of the Institute.

(V) POSITION AFTER SOCIETY EXAMINATIONS HAVE CEASED

When the examinations of the Society have ceased (see paragraph 1 above) a candidate will be required to sit for the appropriate Institute examination. A candidate who has been successful in only one part of the Final examination of the Society will be required to sit for the whole of the Institute's Final examination.

(VI) BYE-LAW 27 OF THE SOCIETY - PASSING OUT OF ELIGIBILITY

The Society's regulations under bye-law 27 include the requirement that articulated clerks and bye-law candidates must complete the Society's examinations within a period of five years following the completion of their articles or approved service as the case may be.

This requirement will no longer apply.

(VII) INTERMEDIATE EXAMINATION OF THE INSTITUTE TO BE TAKEN BEFORE COMPLETION OF SERVICE

An articulated clerk is required under bye-law 81 to present himself for the Intermediate examination of the Institute during the term of his service. If an articulated clerk does not present himself for that examination during his term of service he will be required to enter into a further period of service so that he is serving when he first presents himself. If, on the other hand, he presents himself and is not successful at that examination during the period of his service, he may normally re-present himself for that examination on any later occasion and is not obliged to extend his service beyond the full period required.

(VIII) PERMISSION TO SIT FOR THE INTERMEDIATE EXAMINATION AT A DATE EARLIER THAN NORMALLY ELIGIBLE

Under bye-law 81 the Council may in its discretion allow a candidate for an Intermediate examination of the Institute to present himself at a date earlier than that at which he is normally eligible. This discretion has been exercised only in the most exceptional circumstances and the number of applications granted is negligible.

(IX) PERMISSION TO SIT FOR THE FINAL EXAMINATION AT A DATE EARLIER THAN NORMALLY ELIGIBLE

Under bye-law 86 (a) the Council may in its discretion allow a candidate to present himself for the Final examination of the Institute at a date earlier than that

at which he is normally eligible. The bye-law, however, explicitly states that the Council can exercise this discretion only where the term of service has expired.

Every applicant under bye-law 86 (a) is required to state those special circumstances which in his opinion justify the exercise of the Council's discretion. Each application is considered on its merits. The Council has stated that it will normally accede to an application where the Final examination of the Institute for which permission to sit is requested is to be held at least one year after the passing of the Intermediate examination and at least one year after the completion of the term of service.

(X) ARTICLED CLERKS AND BYE-LAW CANDIDATES SERVING OUTSIDE ENGLAND AND WALES

The Council will continue the special regulations of the Society applicable to clerks serving their articles outside England and Wales and to bye-law candidates completing their qualifying service outside England and Wales who are required to sit for the examinations of the Institute or of the Society in the United Kingdom (except that in no circumstances will an articulated clerk be permitted to present himself for the Final examination of the Institute earlier than within the last three months of his service under articles).

The University of Hull

Mr D. C. S. Downs, F.C.A., who had been nominated by the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants, was appointed as the representative of the Institute on the Court of the University, Hull, for a period of three years, to succeed Mr F. S. Mowforth, F.C.A., whose term of office has now expired.

Articled Clerks engaging in Other Business

One application under bye-law 57 from an articulated clerk to engage during his service under articles in other business for the sole purpose and to the limited extent specified in his application was acceded to.

Articled Clerks in Industrial Organizations

Six applications under bye-law 58 (c) from articulated clerks to spend a period not exceeding six months in an industrial or commercial organization during service under articles were acceded to.

Certificates of Practice

It was resolved:

(a) That a certificate of practice be issued to the following fellow who has commenced to practise:

Phillips, John Harold; 1949, F.C.A.; 1927, A.C.A.; (*Turquand, Youngs & Co), 19 Coleman Street, London, EC2, and at Malta, G.C.

(b) That certificates of practice be issued to the following twenty-four associates who have commenced to practise:

Ashworth, Frank; 1940, A.C.A.; (*Ashworth & Treasure), 10 Park Street, Lytham, Lytham St Annes.

Badrock, Stephen; 1953, A.C.A.; (Birch, Littlemore & Co), 7 Pall Mall, Manchester, 2, and at Altrincham.

Baines, Peter Raymond, D.F.M.; 1950, A.C.A.; 181 Victoria Road, Aldershot.

Burnard, Godfrey Harry, B.COM.; 1957, A.C.A.; 30 Eastbourne Gardens, Whitley Bay, Northumberland.

Clarke, Patrick William; 1950, A.C.A.; 5 Manor Road, East Grinstead, Sussex.

Clifton, Michael, B.Sc.(ECON.); 1957, A.C.A.; (*Blinkhorn, Lyon, Gould & Co), Wardrobe Chambers, 146A Queen Victoria Street, London, EC4.

Cohen, David; 1956, A.C.A.; 18 Poynder's Road, Clapham, London, SW4.

Cooper, Alan Albert; 1957, A.C.A.; (Alan Cooper & Co), 33 Kenneth Crescent, London, NW2.

Cripps, Anthony Charles; 1957, A.C.A.; 6 Adelaide Road, Surbiton, Surrey.

Dell, Norman Ronald; 1957, A.C.A.; (N. Ronald Dell & Co), 58 Jermyn Street, London, SW1.

De Zouche, Richard Bearder; 1955, A.C.A.; (Wilson, de Zouche & Mackenzie), 468 India Buildings, Liverpool, 2, and at London.

Evans, William; 1934, A.C.A.; (Chaytor, Steele & Co.), Caledonian Buildings, 14 Tithebarn Street, Liverpool, 2.

Gerrard, Roy Keith; 1957, A.C.A.; (*Midgley, Gerrard & Co), 15 Wood Street, Bolton, and at Horwich.

Golding, Alan Jack; 1954, A.C.A.; (Fialko, Burns & Co), 14 Howick Place, London, SW1.

Grey, John; 1952, A.C.A.; 14 Wellington Road, Bridlington, and at Beverley.

Morgan, David Glanville; 1957, A.C.A.; 65 Shell Road, Lewisham, London, SE3.

Rae, John Marshall; 1952, A.C.A.; (†Wall & Tanfield) and (Fox & Co), 118 Colmore Row, Birmingham, 3, and at Dudley.

Sims, Brian; 1953, A.C.A.; (West & Drake), The Abbey Close, Sherborne, Dorset.

Smith, Noel John Booth; 1953, A.C.A.; (Murphy, Bailey & Co), 5 Norfolk Street, Manchester, 2, and at Chapel-en-le-Frith and Macclesfield.

Smith, William Lester Langdale; 1957, A.C.A.; (Wilson, Wright & Co), 1 Hatton Garden, London, EC1, and at Hillingdon.

Tschaikowsky, David John Nicholas; 1955, A.C.A.; (†Kidsons, Taylor & Co), Sardinia House, 52 Lincoln's Inn Fields, Kingsway, London, WC2, and at Barmouth and Manchester.

Vereker, John Stanley Herbert Medlicott, B.A.; 1953, A.C.A.; (Midgley, Snelling & Co), Ibex House, Minorities, London, EC3.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

Firms not marked † or * are composed wholly of members of the Institute.

Winters, Bernard Desmond; 1950, A.C.A.; (*Casson, Beckman, Rutley & Co), 70 Wimpole Street, London, W1.

Wood, Michael Edward Eaton; 1952, A.C.A.; 17 Page Heath Lane, Bickley, Bromley, Kent.

Elections to Fellowship

Twenty-seven applications from associates for election to fellowship under clause 6 of the supplemental Charter (bye-law 31) were acceded to.

A list of those who complete their fellowship before November 19th will appear in *The Accountant* of November 23rd.

Admission as Associates

Two applications for admission as associates under clause 5 of the supplemental Charter (bye-law 31) were acceded to.

Details of those who complete their membership before November 19th will appear in *The Accountant* of November 23rd.

Registration of Articles

The Secretary reported the registration of articles of clerkship as follows:

	1957	1956
October	259	276
January to October ..	1,190	1,282

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

- Mr John Kingsley Bagshaw, A.C.A., Groby, Leica.
- „ William Castle Fletcher Blakey, A.C.A., Newcastle upon Tyne.
- „ Walter Boniface, F.C.A., London.
- „ Hugh Fraser, F.C.A., London.
- „ Thomas Gold, F.C.A., London.
- „ Michael John Gorman, A.C.A., Leeds.
- „ Harold Howe Graham, F.C.A., Leamington Spa.
- „ Gray Grayrigge, F.C.A., London.
- „ Leonard Vincent Houseman, F.C.A., London.
- „ Herbert Sydney Humphrey, F.C.A., Eastbourne.
- „ Albert John Moore, A.C.A., Ruislip.
- „ Alfred Morland, F.C.A., Seaford.
- „ John Navein, A.C.A., Liverpool.
- „ Arthur Edward Thomas, F.C.A., Swansea.
- „ Alfred John Whittington, F.C.A., Winchester.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on October 2nd, 1957.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Edward Schofield, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that he signed the Accountant's Certificate required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor for each of the accounting periods October 1st, 1950, to September 30th, 1951, October 1st, 1951, to September 30th, 1952, October 1st, 1952, to September

30th, 1953, October 1st, 1953, to September 30th, 1954, and October 1st, 1954, to September 30th, 1955, of that practice well knowing that he had not made any or a proper examination of the books, accounts and documents of the practice, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Edward Schofield, F.C.A., had been proved and the Committee ordered that Edward Schofield, F.C.A., of 220 Grane Road, Haslingden, Rossendale, Lancashire, be reprimanded.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

- The All England Law Reports reprint: being a selection from the Law Times Reports 1843-1935. (Butterworth.) From 1957.
- The Book of the Stock Exchange; by F. E. Armstrong. Fifth edition. 1957. (Pitman, 45s.)
- Business Charts; by T. G. Rose. Fifth edition. 1957. (Pitman, 21s.)
- Carter's Income Tax, Surtax and Profits Tax; by W. R. Carter. Fifth edition by G. W. Murphy, F.C.A., and F. A. Bailey, A.C.A. 1953. Addendum, 1956. (Gee, 6s.)
- Chalmers' Sale of Goods Act, 1893, including the Factors Acts, 1889 and 1890; by Sir M. D. Chalmers. Thirteenth edition by P. Sieghart. 1957. (Butterworth, 35s.)
- Chitty on Contracts; by J. Chitty. Twenty-first edition; third cumulative supplement; vols. 1 and 2; by F. M. Drake. 1957. (Sweet & Maxwell, 6s 6d.)
- Company Law; by N. C. Chatterjee and N. Krishnamurthi. New Delhi. 1957. (Federation of Indian Chambers of Commerce, 42s 6d.)
- Cost Accounts; by W. W. Bigg, F.C.A. 7th edition. 1957. (Macdonald Evans, 18s.)
- Costing in the Textile Bleaching, Dyeing and Printing Trade. (Textile Finishing Trades' Association.) 1957. (Pitman, 21s.)
- Economic Planning by Programme and Control in Great Britain; by G. Walker. 1957. (Heinemann, 18s.)
- Elements and Practice of Marine Insurance; by V. Dover. 1957. (Witherby, 10s 6d.)
- The Elements of Income Tax Law; by C. N. Beattie. Third edition. 1957. (Stevens, 27s 6d.)
- Executive Performance and Leadership; by C. L. Shartle. 1957. (Staples Press, 30s.)
- A Guide to Management Accounting; by H. W. Broad and K. S. Carmichael, A.C.A. 1957. (H.F.L., 18s.)
- Incentive Payment Systems: a review of research and opinion; by R. Marriott. 1957. (Staples Press, 21s.)
- Income Tax Handbook, 1957-58; by A. W. Gilmour. Toronto. 1957. (De Boo, \$9.50.)
- Irish Income Tax and Corporation Profits Tax; by H. A. R. J. Wilson, F.C.A., and F. N. Kelly. 1957. (H.F.L., presented. 35s.)
- Lectures on Economic Principles; by Sir D. H. Robertson. Vol. 1. 1957. (Staples Press, 16s.)
- The London Capital Market: its structure, strains and management; by N. Macrae. Second edition. 1957. (Staples Press, 25s.)
- A New and Complete System of Book-keeping, by . . . Double Entry . . . ; by William Mitchell. Philadelphia. 1796. (60s 8d.)
- An Outline of Accounting; by L. Goldberg. Fourth edition. (Sydney.) 1957. (Sweet & Maxwell, 17s 6d.)
- The Principles of Modern Company Law; by L. C. B. Gower. Second edition. 1957. (Stevens, 50s.)
- Promotion and Pay for Executives; by G. Copeman. 1957. (Business Publications, 18s.)
- *Ranking, Spicer and Pegler's Executorship Law and Accounts. Nineteenth edition, by H. A. R. J. Wilson, F.C.A. 1956. Supplement 1957. (H.F.L., 2s 6d.)
- Reading Improvement for Adults; by P. D. Leedy. New York. 1956. (McGraw-Hill, 34s.)
- Reporting Foreign Operations; by S. R. Hepworth. Ann Arbor. 1956. (University of Michigan, 30s.)
- Shipping Practice, with a consideration of the law relating thereto; by E. F. Stevens. Eighth edition. 1957. (Pitman, 18s.)
- Spicer & Pegler's Income Tax and Profits Tax; by E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A. Twenty-second edition by H. A. R. J. Wilson, F.C.A. 1956. 1957 supplement. . . . (H.F.L., 2s 6d.)
- Taxation in the Proposed European Free Trade Area. (Federation of British Industries.) 1957. (F.B.I., presented.)
- * This has been presented by the Institute to all District Society Libraries under the grant of books scheme.

ANNUAL DINNER IN BRISTOL

Bristol and West of England Society of Chartered Accountants

The Bristol and West of England Society of Chartered Accountants held their annual dinner at *The Grand Hotel*, Bristol, on Friday, November 8th. Mr R. A. Chermiside, F.C.A., President of the Society, presided over a widely representative company of about 160, which included Alderman P. W. Raymond, J.P., Lord Mayor of Bristol, Mr W. E. Wheatley, J.P., Sheriff of Bristol, Sir Philip Morris, C.B.E., M.A., LL.D., Vice-Chancellor of the University of Bristol, Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, and

Messrs J. G. Bennett, F.A.C.C.A. (President, Bristol and District Society of Certified and Corporate Accountants); B. E. Brown, F.C.A. (President, South Wales and Monmouthshire Society of Chartered Accountants); S. V. P. Cornwell, M.C., M.A., F.C.A. (President, Bristol Incorporated Chamber of Commerce and Shipping); H. S. Cox (President, Bristol Incorporated Law Society); R. W. Cox, F.C.A. (President, Nottingham Society of Chartered Accountants); C. Croxton-Smith, M.A., LL.B., J.P., F.C.A. (Member of the Council of the Institute).

Messrs W. E. Dewdney, F.C.A. (Hon. Treasurer, Bristol and West of England Society of Chartered Accountants); F. Downing, F.C.A. (President, Sheffield and District Society

of Chartered Accountants); W. V. Eggleton, F.C.A. (Chairman, Gloucester Group, Bristol and West of England Society of Chartered Accountants); A. F. B. Ham, F.C.A.; R. J. Hulbert, A.S.A.A. (President, West of England District Society of Incorporated Accountants); P. D. Irons, B.COM., A.C.A. (President, South Eastern Society of Chartered Accountants); S. Kitchen, F.C.A. (President, Birmingham and District Society of Chartered Accountants).

Messrs A. L. Little, F.C.I.S. (Chairman, Chartered Institute of Secretaries, Bristol District); C. H. S. Loveday, A.C.A. (an Assistant Secretary of the Institute); S. R. Perratt, F.C.A. (Vice-President, Bristol and West of England Society of Chartered Accountants); C. W. Puckett, F.C.A. (Chairman, Exeter and District Branch, Bristol and West of England Society of Chartered Accountants); G. L. Sledge, (H.M. Principal Inspector of Taxes).

Messrs E. W. Smith (President, Bristol Centre, Institute of Bankers); Professor D. Solomons, B.COM., A.C.A. (Professor of Accounting, University of Bristol); Messrs C. C. Taylor, J.P., F.C.A. (President, Liverpool Society of Chartered Accountants); P. V. Roberts, A.C.A. (Member of the Council of the Institute); R. S. Young, F.R.I.C.S. (Chairman, Royal Institution of Chartered Surveyors, Gloucestershire, Somerset and North Wiltshire Branch).

Proposing the toast of "The City and County of

Bristol', Mr Chermiside said that at the beginning of the last century there were some 120 accountants named in the Bristol Directory; since then the city and the profession had increased in size many times.

Mr Chermiside spoke of the civic pageantry still to be seen in Bristol, on such occasions as the visit of Her Majesty's Judge of Assize, and expressed the hope that this would be seen for many years in the future.

Responding to the toast, the Lord Mayor referred to the four days' visit to Bordeaux of a Bristol delegation which he had headed.

Accountancy and the Universities

Sir Philip Morris who proposed the toast of 'The Institute of Chartered Accountants in England and Wales', said it was a sign of the times that in the University of Bristol there was a chair of accountancy - one of the few in the country. He went on to say that the responsibilities of the accountancy profession had changed, were changing, and would change still further.

Accountants must, for the present and future, learn how to recognize that while the rules of measurement did not change, the purpose for which they were used changed as society became more complex and the organization of its financial affairs became more difficult.

After commenting that more and more boys and girls today looked to the universities as a part of their ordinary full-time education, Sir Philip continued:

'Some of the members of your profession tell me that the universities are not interested in the things that matter; that undergraduates in them show no tendencies to be interested in the accountancy profession.

'I do not believe in taking criticism of that kind placidly. I say to you, very squarely, if you as a profession do not go half-way to meet the undergraduates who know so little about you, how can they come half-way to meet you?

'I do not ask you to go more than half-way. If you go

half-way you will certainly find, from a well-stocked reservoir, recruits of ability and promise. This is desperately important to the country because you are a profession not only of growing significance but of growing importance.'

Responding to the toast, Mr Lawson spoke of the 'crystal-gazing powers' of the Bristol Society's Committee in foreseeing that the scheme of integration with The Society of Incorporated Accountants would be effective at the time of the dinner and said:

'As a result of your foresight we have with us tonight a number of the members of the Society who, within a very short time, will become members of our Institute. It is the wish of us all that members of the Society should be brought into the life and activities of the Institute as quickly as possible, and Bristol is setting an example tonight.'

Institute Needs 2,000 Recruits a Year

Mr Lawson then referred to the need to secure an adequate number of the right type of young people to train to become chartered accountants, and continued:

'At the present time we are recruiting about 1,500 articled clerks per annum, and in future we shall require well over 2,000. At present about 10 per cent come from universities and we should like to increase this proportion.'

Mr Lawson went on to say that the reduction in the period of articles from five years to three years in favour of university graduates had shown itself in practice to be fully justified. He added:

'Many of those who come to us from the universities have taken the special accountancy courses, such as that which is so ably conducted by Professor Solomons at Bristol University, but we also welcome graduates who have taken other courses.'

The toast of 'Our Guests' was proposed by Mr P. V. Roberts and the Sheriff of Bristol replied.

The speeches were concluded with the thanks of Mr Chermiside, on behalf of the Bristol Society, to Mr A. L. Rowell, D.S.O., F.C.A., honorary secretary of the Society, for having put in so much hard work to make the function such a success.

IMPROVEMENT IN COMPANY ACCOUNTS

Scottish President's Plea at London Dinner

The fortieth annual dinner of the Association of Scottish Chartered Accountants in London was held at *The Savoy Hotel*, last Monday. Mr Robert Adams, C.A., Convener of the London Local Committee was in the chair, and with Mr James T. Dowling, C.A., President of the Scottish Institute, received the 300 members and guests who attended. Among those present were the Rt. Hon. Lord Conesford, Q.C., Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, and

Messrs G. H. Andrews, C.B. (*Second Secretary, Board of Trade*); W. O. Atkinson, M.B.E., F.I.M.T.A. (*President, The Institute of Municipal Treasurers and Accountants*); Professor W. T. Baxter, B.COM., C.A. (*London School of Economics*); Mr J. Borsay, F.C.W.A. (*President, The Institute of Cost and Works Accountants*); Sir Sidney Caine, K.C.M.G., B.SC. (ECON.), LL.D. (*Director, London School of Economics*).

Messrs J. G. Girdwood, C.B.E., C.A.; R. I. Marshall (*Vice-President, The Institute of Chartered Accountants of Scotland*); S. H. Mearns, C.A. (*Past Chairman of the Association*); A. C. S. Meynell, F.A.C.C.A. (*President, The Association of Certified and Corporate Accountants*); W. A.

Nicol, C.A., F.C.C.S. (*Chairman, The Association of Scottish Chartered Accountants in the Midlands*); Sir Thomas Robson, M.B.E., M.A., F.C.A. (*Past President, The Institute of Chartered Accountants in England and Wales*); Rev. R. F. V. Scott, D.D.

Messrs R. J. W. Stacy, C.B. (*Under-Secretary, Insurance and Companies Department, The Board of Trade*); E. K. Wright, M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*); Sir Richard Yeablesley, C.B.E., F.C.A., F.S.A.A.; Mr Ian D. Yeaman (*President, The Law Society*).

The toast of 'The Institute of Chartered Accountants of Scotland' was proposed by Lord Conesford, Q.C., who said that the services which accountants performed for industry, and indeed for the whole community, were invaluable.

The problems which accountants dealt with so skilfully covered ever wider fields of knowledge and experience - business, economics, statistics, administration, law and morals.

Referring to Scottish accountants upholding the traditions of 'their great profession' abroad, Lord

Conesford said he imagined that they were as familiar figures in the business world as Scottish engineers in the mercantile marine.

Presentation of Information

Replying, Mr Dowling spoke of the extent, the nature, and the method of presentation of the information disclosed in the financial accounts of companies, and he asked

'Can we feel that, in general, such accounts are clearly expressed, and as revealing of considerations which are relevant today, as they might be?'

He went on:

'Personally, I would doubt if an affirmative answer can be given to this question. Has there not been too close an adherence to convention and has not the minimum of the 1948 Act tended to become a maximum? Has there not been an inclination to regard the Act as the end instead of the beginning of a revolution?'

'Gone is the day when the accounts of companies were of interest to only the few: now they are looked at by greatly increased numbers of relatively small shareholders many of whom find them more difficult to understand than they should be. They are the subject of statistical surveys, which in some aspects cannot go so far as would be desirable, because necessary information is not always available; and they receive the attention of many writers on financial matters who can sometimes allege that informed comment is stultified by lack of relevant data.

'I wonder if more could not be done, without detriment to industry, to produce accounts which would go further to meet these various needs, and help to avoid misunderstandings on such matters as, for example, the profits truly available for dividend, the return yielded by the profits on the true value of the assets employed in their earning, and the relationship of wages, materials, and profits to turnover.

'I realize the difficulties, and the differences of opinion which exist, but in spite of these, experimentation could, and I think should, take place to a greater extent than seems to be the case at present. If necessary, the results could meantime be submitted as supplementary to the conventional. From these might emerge developments in presentation which would gradually find general acceptance - just as the more progressive practice of some companies in the 1940s was coming to be adopted by more and more

companies in advance of the passing of the 1948 Act.'

Mr Dowling said that he realized there were some splendid exceptions to his generalization and that their number was growing. He hoped the day was not far distant when these would merely be part of a great majority.

Form of Accounts

He appreciated that the form of accounts was primarily a matter for the directors and that, provided the accounts met the requirements of legislation, there was, in theory, nothing the auditor could do about them; but, he said,

'In practice the auditor can wield some influence, and the accountant in industry perhaps even more, and, if I am right in the view I have expressed, I am sure they will both bring their influence to bear in the direction I have indicated, if indeed they are not already doing so.

'In this way our profession can try to contribute towards that better understanding which is so essential today. It is not in us to command success in our endeavour, but let us do the more and deserve it by our continued striving for progress.'

Replying to the toast of 'Our Guests', proposed by Mr Mearns, Mr Lawson said that in the recent integration schemes the English Institute had in some respects after its seventy-seven years' existence copied the Scottish Institute.

'If we could come to an arrangement together by which the English Institute were to copy Scotland in every seventy-seventh year and Scotland were to follow England in the other seventy-six years, what a delightful arrangement that would be,' he added amid laughter.

He did not think there had ever been a time when the relationship between the Scottish and English Institutes had been happier than at present and he was looking forward to the Joint Standing Committee set up under the integration scheme to cement the friendship and to give it new purpose and direction.

Mr Lawson then paid a tribute to the Board of Trade, who, he said, had always been kindly and friendly in every problem taken to them, and never more so than in the problem of integration.

NATIONAL INSURANCE BENEFITS AND CONTRIBUTIONS

Increases Proposed in the New Year

The biggest increases ever to be made in war pensions and in national insurance pensions and benefits since the inception of the schemes were announced last week by Mr John Boyd-Carpenter, Minister of Pensions and National Insurance. Contributions will in consequence be substantially raised. National assistance rates are also to go up and the tobacco token scheme for pensioners is to be ended. Subject to the necessary Parliamentary approval, the changes will begin to operate from the end of January or beginning of February and will affect in one way or another virtually the whole population. The main changes in contributions and benefits are as follows:

NEW CONTRIBUTIONS				
		New rate per week	Old rate per week	Weekly increase
		s d	s d	s d
Man over 18	.. ..	9 5	7 5	2 0
Employer	.. ..	8 1	6 2	1 11
Total	.. ..	17 6	13 7	3 11
Woman over 18	.. ..	7 8	6 0	1 8
Employer	.. ..	6 7	5 1	1 6
Total	.. ..	14 3	11 1	3 2
Self-employed man	.. ..	11 6	9 3	2 3
Self-employed woman	.. ..	9 8	7 10	1 10

NEW BENEFITS

		New rate per week s d	Old rate per week s d	Weekly increase s d
Retirement and widows' pensions, unemployment and sickness benefits -				
Single person ..		50 0	40 0	10 0
Married couple ..		80 0	65 0	15 0
Widow's pension ..		50 0	40 0	10 0
Industrial injury benefits -				
Single person ..		85 0	67 6	17 6
Married couple ..		115 0	92 6	22 6
Pension, if 100 per cent disabled ..		85 0	67 6	17 6
Widow's pension ..		56 0	45 0	11 0

Higher Rates of National Assistance

The Minister has accepted proposals from the National Assistance Board for increases in national assistance rates. The draft regulations require the approval of both Houses of Parliament and, subject to this approval, they will come into force on January 27th, 1958.

The effect is to increase the weekly amounts provided for needs other than rent, for which separate provision is made. In making their proposals the Board have taken into account not only changes in prices, but also the effect on a number of pensioners receiving national assistance of the Government's decision to end the tobacco token scheme.

The main increases which it is proposed to make on January 27th, 1958, are that the scale rate for a married couple (40s in 1948 and 67s now) will be raised to 76s, an increase of 9s; and the scale rate for a single householder (24s in 1948 and 40s now) will be raised to 45s, an increase of 5s. (These rates are exclusive of rent, for which separate provision is made.) Appropriate increases are made in the rates for other persons, including dependent children.

War Pensions

The basic rate of pension for 100 per cent war disablement will be raised by 17s 6d a week, i.e. from 67s 6d to 85s a week for private soldiers, with proportionate increases for the less severely disabled. Pensions for war widows with children or over 40 years of age or incapacitated will be raised by 13s 6d a week, i.e. from 52s 6d to 66s 0d a week for privates' widows, with further increases for their children. Certain of the supplementary allowances are to be raised at the same time.

National Insurance Income

The estimated income from the increased rates of contributions, Exchequer supplement and interest in the first full year would be £883 million, of which £125 million would be Exchequer supplement and £167 million would be from the increase in contributions.

The extra cost of the higher benefits and pensions in the first full year is estimated to be £167 million, of which £119 million is due to retirement pensions. This would bring the total expenditure to £897 million of which £622 million would be on retirement pensions. If no further changes are made total expenditure by 1978-79 will have grown to £1,314 million of which £978 million will be for retirement pensions and the excess of expenditure over income would be £475 million.

Industrial Injuries

The extra cost of the higher industrial injuries benefits in the first full year is estimated to be £10 million, while the extra income from contributions and Exchequer supplements will be £27½ million. The extra expenditure will increase steadily with the growth in the number of disablement and widow pensioners because the scheme has been in operation only nine years and the new contributions are necessary to enable the Industrial Injuries Fund to meet the full eventual charge.

Notes and Notices

PERSONAL

MESSRS G. DIKEY & Co, Chartered Accountants, of 9A Sackville Street, London, W1, announce that they have admitted Mr RICHARD BRANDT, M.A., A.C.A., to partnership as from November 1st. The name of the firm will remain unchanged.

MESSRS FISHER, HOPKINSON & Co, Chartered Accountants, of Birmingham, announce that they have now removed their offices from Moseley to Lancaster House, 67 Newhall Street, Birmingham, 3. Telephone: Central 7711-3.

PROFESSIONAL NOTES

Mr R. A. Bryan, A.C.A., has been appointed a director of Abelson & Co (Engineers) Ltd, of Birmingham.

Mr Travers L. Mooyaart, F.C.A., has been appointed a director and chairman of the National and Colonial Insurance Corporation Ltd.

Mr John Francis Moore, F.C.A., has been appointed secretary of the Federation of Wholesale Fresh Meat Traders of Great Britain and Ireland.

Mr J. S. Gilks, A.C.A., has been appointed secretary of A. C. Cossor Ltd.

Mr W. J. Bourne, A.C.W.A., has been elected joint managing director of Job Wheway & Son Ltd.

Mr T. D. R. Bensted, F.C.A., F.S.A.A., has been appointed secretary of Toledo Woodhead Springs Ltd.

Mr Joseph Warton, A.A.C.C.A., has been appointed to the board of the Granada Group Ltd as assistant managing director; he will remain as secretary.

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OBITUARY

DAVID ALEXANDER RICHMOND, C.A.

It is with regret that we record the death at the age of 92 of Mr David Alexander Richmond, C.A., at his home in Busby, Lanarkshire. Mr Richmond, at the time of his retirement in 1948, was senior partner in the firm of Thomson, Jackson, Gourlay & Taylor, Chartered Accountants of Glasgow, with whom he served for sixty-eight years.

Mr Richmond began his career with the firm at the age of 15 - before he was old enough to be articled - and was admitted to membership of the former Institute of Accountants and Actuaries in Glasgow in 1889. From 1930-32 he was President of that Institute and for a considerable number of years he served on the joint committee of Councils of the three Scottish bodies prior to their amalgamation in 1951.

He took an active part in the work of the Church of Scotland and was for several years a trustee of the Church of Scotland Trust and a member of the Foreign Mission Committee. His son, Mr Hugh Richmond, C.A., is a partner in the firm and continues his family's long association with it.

THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF SCOTLAND

LONDON DISCUSSION GROUP

The meeting to be addressed by Mr E. B. Neame, A.C.A., of the London Stock Exchange, on 'A stock-broker's interpretation of company accounts', will now be held at 6.15 p.m. on Tuesday, November 26th, in the Small Hall, Bishopsgate Institute, 230 Bishopsgate, EC2 (near Liverpool Street Station), instead of at The Institute of Chartered Accountants in England and Wales as announced previously.

The meeting when Mr W. S. Risk, B.COM., C.A., F.C.W.A., will speak on 'Management accounting' on Tuesday, January 14th, 1958, will also be held in the Small Hall of The Bishopsgate Institute commencing at 6.15 p.m.

THE BELFAST SOCIETY OF CHARTERED
ACCOUNTANTS

The first residential week-end for members of The Belfast Society of Chartered Accountants was held at *The Strand Hotel*, Portstewart, from Friday evening, November 1st, to Sunday, November 3rd.

At the opening session on Friday evening, at which the chairman was Mr A. S. Boyd, a paper was read by Mr D. H. Templeton on 'Recruitment and staffing for the profession'. The second paper was given on Saturday morning by Mr T. D. Lorimer on 'The treatment in practice of directors' expenses and benefits', the chairman being Mr S. H. Laughlin. This was followed by morning coffee, after which Mr G. E. Cameron delivered an address on 'The agreement of the valuation of shares in private companies with the

Estate Duty Office', with Mr A. N. Lovesy in the chair. Saturday afternoon was left free, and many members availed themselves of the facilities of the Portstewart Golf Club. Saturday evening was devoted to 'Question time', when questions on taxation and other professional subjects submitted by members were discussed by a panel consisting of Messrs John Bacon, B. A. Courtney, G. B. Duffin, G. T. Henderson and S. H. Laughlin, the chairman being Mr E. W. McDowell. The closing session of the week-end was a paper by Mr R. E. McClure on 'Training for the profession', the chair at this meeting being taken by Mr John Mulholland.

A feature of the week-end was the lively discussion which ensued after each paper on the problems arising on each subject. It was the feeling of all the members present that great benefit had been derived from the conference, and much useful information had been obtained which would assist in dealing with various professional problems. In fact, the conference was so successful that it was arranged that another one should be held in October next year.

INSTITUTE OF INTERNAL AUDITORS

A meeting will be held at 7.30 p.m. on Wednesday, November 27th, at the Chartered Accountants' Hall, 46 Fountain Street, Manchester, 2, for the purposes of considering whether there is sufficient support for the formation of a Manchester Chapter of the Institute of Internal Auditors. At present the only Chapter in the United Kingdom is the London Chapter. All those within reach of Manchester who are responsible in a managerial or supervisory capacity for the internal auditing activities within their organization are invited to attend.

Mr W. J. Smith, C.A., the Regional Vice-President of the Institute, and Mr J. O. Davies, F.C.A., A.C.W.A., the President of the London Chapter, will attend the meeting for the purposes of explaining the function of the Institute and the requirements before a new Chapter can be formed.

THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m., at Hall 23, Winchester House, Old Broad Street, EC2: Lecture on 'Tax planning for smaller businesses and companies', by Mr J. D. Wells, A.C.A. *Chairman*: Mr R. P. Matthews, J.P., B.COM., F.C.A. (Hon. Treasurer of the Students' Society).

Tuesday, 5.30 p.m.: Film and demonstration of Hollerith punched-card accounting (limited number).

7.30 p.m., at Southend: Lecture on 'The law of agency', by Mr O. Griffiths, M.A., LL.B.

Friday: Visit to the Royal Mint (limited number).

5.15 p.m., at the Institute: Introductory course lectures on, (1) 'Audit practice and methods', by Mr W. K. Wells, B.A., F.C.A., and (2) 'The law of sale of goods', by Mr A. C. Staples.

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THE AUDITOR AND THE CHEQUES ACT

IT need hardly be said that the Cheques Act, now in operation for more than a month, has not in any way altered the fundamental principles of auditing. In examining the books of his client, the auditor must still have, as laid down by Section 162 (3) of the 1948 Companies Act, right of access to the company's records and be entitled to demand of the directors and other officials of the company whatever information and explanations he may think it necessary to obtain in order to carry out his duties. What may have changed, however, since the Cheques Act came into force, are the form and character of the documentary evidence submitted to him and since, as the late F. R. M. DE PAULA rightly said, vouching is the very essence of auditing, it is of the utmost importance that the auditor should satisfy himself beyond doubt that his checking procedures have been in no way invalidated by any modifications which his client may have made to his accounting system.

In practice, the principal modification is that in most instances the client has ceased to demand receipts for payments made by him. In this he is taking proper advantage of Section 3 of the new Act, but for audit purposes the onus is still upon him to link the paid cheque, which is evidence of payment only, with the relative supporting evidence such as statements and invoices so that the consideration for which the payment was made may be identified. If this is done, then the auditor may reasonably satisfy himself, as before, as to the nature and propriety of the payment. How to assemble or cross-reference the various documents is only a matter of office organization in which the auditor, for his own convenience as well as that of his client, will no doubt willingly co-operate.

Another task incumbent on the client is to discriminate between transactions which may adequately be vouched by those methods and those which by their special nature require a specific receipt. The Scottish Institute, in its memorandum on the Cheques Act, gives a number of examples of the latter, including instances where the client's records are incomplete, loan payments and settlements of disputed accounts. Another is the case where the payee has endorsed the client's cheque and made it over to a third party and, in the course of experience, a number of others will likely arise. THE CHANCELLOR OF THE EXCHEQUER has, however, resolved one doubt. In answer to a question in the House on Tuesday of last week, he stated that the Inland Revenue would accept an 'unendorsed paid cheque together with the unreceipted

accounts or invoice' as a voucher in support of maintenance and other similar claims¹.

As for the bulk of transactions in the ordinary run of business, the paid cheque and the supporting statement or invoices are likely to be sufficient evidence, the auditor may find it desirable to devise a new approach to detailed checking. Depending on the adaptability of the client's filing system, it may be thought expedient to vouch the cash-book and day-book and post to the personal ledger from both concurrently. This, given a sufficiency of assistance, would give him much more time to study the proliferation of documentary evidence. The auditor has, for example, to note the nature of the crossing, that the name of the payee is correctly stated and that the face of the cheque bears the 'paid' stamp of the payee bank. The amount has to be matched with the total of the statement or of the invoices and in a surprisingly large number of instances – bills of exchange, promissory notes and cheques drawn for cash or payable by foreign and other banks outside the jurisdiction of the Act are but a few examples – he has to turn over the instrument and look at the endorsement which is

still required. When to these variations in vouching is added the labour of watching for and checking transactions which do call for a specific receipt, the importance of planning a detailed audit programme beforehand and of obtaining the co-operation of the client in making his paying, accounting and filing arrangements as efficient as possible, cannot be over-emphasized.

If the client ceases to demand receipts for payments to creditors, it is logical that, *per contra*, he should stop issuing receipts for amounts paid to him by debtors. From the audit angle, this should not be a serious drawback. It has been said many times that the auditor is not so much concerned with checking the entries which appear on the debit side of the cash-book as making sure that none has been omitted. The future absence of carbon copy receipts, albeit numbered, should not impair the overall efficiency of his check provided that, in addition to making routine tests, he is satisfied that the system of internal control works as it should and that, in particular, the two functions of handling cash and preparing and issuing customers' statements are kept strictly apart.

¹See 'In Parliament' at page 618.

INFLATION AND THE INVESTOR

SIR JOHN BRAITHWAITE, the chairman of the Stock Exchange, might equally well be called its champion, so valiantly does he describe and defend its ways to the world at large. At a lecture to bankers in North Wales last week, he rejected the criticism that a rise in share values contributes towards inflation. His argument in effect was that for every £ received by the seller, another £ – belonging to the buyer – was withdrawn from circulation so that the increased spending potential was nil.

It does happen, however, that investors selling when prices are high, tend to spend some of their realized profits and the part of savings being expended on consumer goods does have some inflationary influence on the economy. This is of greater significance when, as at present, the emphasis of market purchasing is believed to be shifting from private investors to large and long-term institutional investors. SIR JOHN appreci-

ated that there was an element of inflation in these processes but contended that the additional spending power created by upward price movements was not significant in relation to the change in the total market worth of all quoted securities. He made the further point that fluctuations in market prices caused only 'paper' profits and losses until buying and selling actually took place.

While SIR JOHN welcomed the limelight which was shed on the Stock Exchange as good for the total business done, he admitted that it had at times certain disadvantages. The increased Bank rate, as well as depressing stock and share prices, had had an adverse impact on the value of house property, but as that market, unlike the Stock Exchange, had no daily price indices and received much less publicity, the extent to which house property had depreciated recently had passed almost unnoticed.

ACCELERATION OF INTERESTS UNDER WILLS AND SETTLEMENTS

by SPENCER G. MAURICE

IN regard to wills, both of realty and personalty, the doctrine of acceleration has long been established. It occurs when a life interest or other particular interest is, or becomes, void with the result that an estate or interest in remainder or expectancy falls into possession sooner than it otherwise would: that interest is then said to be accelerated. The prior interest may be void, for example, because of disclaimer, forfeiture or lapse, and the Court then construes the subsequent interests as intended to take effect on the failure or determination of a prior interest in any manner.

The failure of a prior gift does not, however, accelerate a subsequent executory limitation which does not take effect merely on the determination of the prior interest, and subsequent gifts cannot be accelerated where the persons who are to take thereunder are not ascertainable until a future date. Furthermore, in a case where there is a direction for accumulation which is excessive, and there are interests in remainder subject to the trust for accumulation, the interests of the persons so entitled are not accelerated by the rejection of the period of accumulation in excess of that permitted by Section 164 of the Law of Property Act, 1925, but during the excess of the directed period of accumulation the rents, profits and income go to such person or persons as would have been entitled thereto if such excessive accumulation had not been directed.

Acceleration under Settlements

There appears to be no reported case in which acceleration has occurred as a result of the failure of an interest limited under a settlement *inter vivos*. In the recent case of *Re Flower's Settlement Trusts, Flower and Others v. C.I.R.* ([1957] 1 All E.R. 462), however, the Court of Appeal indicated that the doctrine might apply in the case of such settlements, though it might be more difficult, in the case of a settlement, to collect the intention necessary to bring the doctrine into play. In that case the Court was unable to find the intention necessary to produce acceleration.

The settlor in *Re Flower's Settlement Trusts*, by a settlement made in 1936 between the settlor on the one hand and the settlor, his wife

and his three children as trustees on the other, empowered the trustees to apply the income of the trust fund during his life for purposes which (as was not disputed) were void for uncertainty, but which excluded from benefit the trustees themselves. After the death of the settlor the trustees were to pay the income of the trust fund to his widow during her life and to hold the fund upon trust for the settlor's three children in equal shares on the death of the survivor of the settlor and his wife. The settlor's wife died in 1946 and the settlor in 1950. On the death of the settlor the question arose whether the trust fund and accumulations passed on his death and became liable to estate duty under Section 1 of the Finance Act, 1894, and the trustees took out a summons in which they asked for the determination of this question.

Acceleration or Resulting Trust

It was the contention of the trustees that, as the trusts expressed to take effect during the lifetime of the settlor were void, the interests of the persons taking in remainder were accelerated, so that upon the execution of the settlement the settlor's wife forthwith became the tenant for life in possession of the fund with remainder to the settlor's children. If that were the case it was clear that no estate duty would be payable under Section 1 or otherwise. The trustees' contention was founded on the decisions on acceleration in the case of wills.

On behalf of the Crown it was contended that the invalidity of the trusts declared in respect of the income during the settlor's life brought about a resulting trust in his favour, and, consequently, that at the time of his death he had a beneficial interest in possession for the period of his life in the fund. If that were the case then clearly duty was exigible on his death by virtue of a passing within the meaning of Section 1 of the Act of 1894.

The Principle Involved

The leading judgment of the Court of Appeal was given by Jenkins, L.J., with whom Lord Evershed, M.R., and Ormerod, L.J., agreed. Jenkins, L.J., referred to the principle as stated by Stannards, J. (as he then was), in *Re Hodge, Midland Bank Executor and Trustee Co Ltd v.*

Morrison ([1943] 2 All E.R. 304, 305). Simonds, J., then said that the principle was that the postponement of a particular interest was merely in order that a prior interest might be enjoyed, and if that prior interest were determined, whether by the death of a prior beneficiary or for any other reason, the reason for postponement went and there was no reason, therefore, why there should not be acceleration. His lordship continued:

'Accordingly, when I find here that the annuity is expressed to be subject to the life interest . . . and [that the tenant for life] disclaims his life interest, I come to the conclusion that the annuity is to be accelerated, for it is just as if it were said "subject to the interests of [the tenant for life] which may be determined either by his death or for some other reason".'

In *Re Flower's Settlement Trust* Jenkins, L.J., said that the question was whether, having regard to that principle, (the intention necessary to produce acceleration in the case before the Court was to be collected from the terms of the settlement.

Acceleration not Intended

His lordship considered the terms of the settlement and could find no sufficient reason for holding that the interests in remainder were accelerated. He pointed out that, on the contrary, such indications as there were pointed in the other direction. He observed that the trustees were in fact the settlor himself, his wife and his children, so that what the settlor had immediately in view was a trust operating during his life under which the income of the fund could be applied for a wide variety of purposes excluding any benefit for himself and his wife and children at the joint discretion of those persons in their capacity as trustees, and he made no further or other disposition of the fund during his life.

Next, his lordship pointed out that the trusts in the settlement were declared in two separate and distinct branches: first, it was provided that the trustees should stand possessed of the trust funds during the life of the settlor 'to use, apply and pay the income' thereof, and so forth; secondly, 'after the death of the settlor the trustee shall hold the trust funds' on trusts stated. That is to say, it was not a case where the trusts during the life of the settlor and after his death were expressed in a continuous series without a break: on the contrary, the two sets of trusts were declared quite separately which suggested to some extent that they were to be regarded as independent of each other.

Nor could his lordship find anything equivalent to the gift of a vested remainder to a person expressed to take effect on the death of the first taker, and this he thought an insuperable obstacle to the argument that acceleration took place: it was not possible to bring the doctrine into play by treating the trusts in remainder as taking effect on the death of the settlor, or the earlier failure or determination of his interest, because he had in truth no beneficial interest. The learned lord justice took the view that it would have been an extraordinary departure from anything which the settlor could have intended for his wife to come into immediate possession of the income of the trust fund and, since acceleration must depend upon the presumed intention of the donor, there was no room for the application of the doctrine in the present case. It followed that the claim of the Crown to estate duty succeeded.

Acceleration under a Will

Re Flower's Settlement Trusts was distinguished in *Re Hatfield, Hatfield and Another v. Hatfield and Others* ([1957] 2 All E.R. 261). The facts in that case were as follows.

The testator devised certain realty to H. for life with remainder to H.'s sons successively in tail male, with remainder to A. for life, with remainder to A.'s sons successively according to seniority in tail male, with remainder to C. in fee simple. The testator gave his residuary estate to his trustees on trust for sale and conversion, and settled the proceeds thereof upon trust for the benefit of his great-nephews and great-nieces and their issue. The testator died in 1941 and H. died in 1950 without ever having had a child. Later that year A., who had as yet no son, disclaimed his interest under the will. C. died in 1951. The settled land had been sold and was represented by a fund comprising securities and cash.

The question now arose whether, having regard to A.'s disclaimer, the income of this fund as from H.'s death until the expiration of twenty-one years from the testator's death, or until a son was born to A., or until A.'s death without having had a son, ought to be paid to C.'s personal representatives, or ought to be accumulated and the accumulations to be held on trust for the first or only son who might be born to A., or, if there was no such son, for C.'s personal representatives, or ought to be paid to the trustees of the testator's residuary estate.

A further question was the destination of the

income for the period after the expiration of twenty-one years from the testator's death until such time as a son was born to A. or until A.'s death without having had a son, because, if any accumulation were directed, it could not by reason of Section 164 of the Law of Property Act, 1925, endure beyond the period of twenty-one years from the testator's death.

Ordinary Rule Applied

Harman, J., said that there could be no doubt that, as a general rule, the effect of a disclaimer of a particular estate was to accelerate the estates in remainder. The question was therefore whether, as a matter of construction of the will in the present case, the ordinary rule was to apply. His lordship said that the words 'with remainder' had always, he thought, been construed as showing that the subsequent estate rose on the cesser of the prior estate, which, although expressed as 'an estate for life', might fail before the death of a life-tenant for various reasons such as, in the present case, disclaimer: consequently, the ordinary rule applied, C.'s interest was accordingly accelerated, and the income pending the birth of a son to A. was payable to C.'s personal representatives. Since the income was specifically disposed of there was no gap into which the provisions of Section 175 of the Law of Property Act, 1925, which deals with the intermediate income of a contingent or future specific devise or bequest of any property, could intrude. In the circumstances the second question, as to accumulation, did not arise.

Potential Beneficiaries Excluded

There may be acceleration, although its effect is prematurely to close a class of beneficiaries, as happened in the recent case of *Re Davies and Another v. Mackintosh and Others* ([1957] 3 All E.R. 52).¹ The testatrix divided the residue of her estate equally between her sons, D. and J., and her stepdaughter, P. 'P.'s portion to be hers for life and then to be divided equally between her issue'. P. renounced and disclaimed her interest in the testatrix' estate. She was a widow with three children, none of whom at

the date of the proceedings had issue, and it followed, therefore, that if the effect of the disclaimer was that P.'s portion forthwith vested in her three children absolutely all at present non-existent issue (e.g. grandchildren) were deprived of any interest. An alternative view was put forward, that the disclaimed life interest must be treated as struck out of the will and not to have been thereby effectively disposed of, so that there was a partial intestacy, in which case the income of the fund during the residue of P.'s life was equally divisible between the testatrix' two sons, leaving the capital of the fund to be divided, on P.'s death, strictly in accordance with the will. Vaisey, J., pointed out, however, that acceleration might and did sometimes alter the constitution of a class of beneficiaries from what it would have been if the gift had not been accelerated, and held that P.'s portion now belonged to her three children in equal shares absolutely.

Interests Subject to Defeasance

A few days later *Re Davies* was distinguished by Upjohn, J., in *Re Taylor, Lloyds Bank Ltd v. Jones and Others* ([1957] 3 All E.R. 56). In that case the testatrix gave her residuary estate to her brother T. for life, and after his death in trust for G. and T. P. or such of them as should be living at the death of the survivor of herself and T. absolutely,

'Provided always that if either of them, the said [G. or T. P.] shall die before the death of the survivor of myself and my brother, the said [T.], leaving issue him surviving who being male attain the age of twenty-one years, or being female attain that age or marry under that age such issue shall take *per stirpes* and if more than one equally between them the share which his, her or their parent would have taken of and in my residuary trust estate if he had survived myself and my brother the said [T.]'.

T. disclaimed all his interest in the testatrix' estate and the question arose how the residue should be dealt with during the remainder of the life of T. There were three views: first, that it must be treated as though T. had died and G. and T. P. had absolute vested interests which were now indefeasible; secondly, that there was a partial acceleration so that it was now held on trust for G. and T. P. on the trusts of the will; and, thirdly, that during the remainder of T.'s life there was an intestacy as to income.

Upjohn, J., held the second view to be the correct one. His Lordship expressed agreement with *Re Davies*. But in that case the interests of the remaindermen were indefeasibly vested,

¹ A further, quite distinct point was decided by the Court in this case. By her will the testatrix gave D. J. W. £350, and by a codicil she gave him £1,000 'thus increasing the sum of £350 as mentioned in my said will, in appreciation of his valuable services and advice over a period of twenty years'. The question arose whether the £1,000 given by the codicil was in addition to or in substitution for the £350 given by the will. Vaisey, J., held that as there was no context to displace the rule that legacies given by different instruments to the same legatee are *prima facie* cumulative, D. J. W. was entitled to the £1,000 as well as the £350.

whereas in *Re Taylor* the interests of G. and T. P. were vested subject to defeasance. Hence, to hold that on T.'s disclaimer they became entitled to indefeasible vested interests would be to cut out issue long before the event on which they might be entitled to take (that is, the death of G. or T. P. before the survivor of the testatrix and T.). Accordingly, to accept the first view would, his lordship decided, be to do violence to the testatrix' language, and he rejected the third

view, which depended on an argument, not supported by authority, that the doctrine of acceleration applied only where there was an absolute vested remainder following on the life interest which had determined. The effect of his lordship's decision was that, although G. and T. P. received (during T.'s lifetime) an interest not entirely contemplated by the testatrix, each remained waiting to receive, on T.'s death, the remainder subject to defeasance given by the will.

UNIFORM ACCOUNTING IN FRANCE

The New *Plan Comptable Général*

by KENNETH S. MOST, LL.B., A.C.A.

THE French Ministry of Finance and Economic Affairs set up a Committee for the Rationalization of Accounting immediately after the Second World War, the task of which was to propose a national chart of accounts and to make recommendations for its detailed application and utilization for the benefit of the national economy. The first *Plan Comptable Général* appeared in 1947, and in the same year the Committee was replaced by the *Conseil Supérieure de la Comptabilité*, whose task was to supervise the introduction of the *Plan*. The title of this body was changed to *Conseil National de la Comptabilité* by a decree of February 1957 and it is now a consultative body under the Minister of Economic Affairs. From the beginning, these committees have been composed of prominent civil servants, industrialists and academic and professional accountants, as well as representatives of the other professions.

With the publication of a second, revised edition of the *Plan*,¹ it is possible to evaluate the work done by these committees, and its effect on the accountancy profession in France. It can be said at the outset that the new *Plan*, which is more of an accounting manual than a chart of accounts, places France in the forefront of accounting progress. In addition, the chart of accounts which it contains may well be chosen as the model for an international chart of accounts, much discussed on the Continent in connection with European economic integration. It is therefore worthy of close study, quite apart from the general interest which its contents will have for anyone concerned with accounting theory and practice.

Since two very clear and comprehensive articles describing the first *Plan* will no doubt be accessible to most readers of this journal,² attention here will be confined to the main changes and most important special features of the new edition. Readers are referred to Mr Bernard M. Berry's articles for more detailed study, where they will also find the principal chart and model financial statements reproduced in English.

What the *Plan* Consists of

The *Plan* is a volume of some 250 pages. Besides a very detailed chart of accounts (one is almost surprised to find no account number allotted to 'hidden reserves') and a series of model financial and statistical reports, it contains the text of decrees relating to the committees mentioned above, an operating manual describing how the movements from one account to another are effected, definitions of accounting words and phrases, and a host of information on contemporary ideas on financial and cost accounting problems.

The *Plan* represents a serious and authoritative attempt to establish a scientific basis for accountancy, by substituting acceptable norms of classification, terminology, valuation and reporting for the opinions of teachers and practitioners and the generalizations of the law.

Compulsory or Voluntary

The first *Plan* appeared at a time when *dirigisme* was the prevailing influence in French political life, and it envisaged the eventual compulsory application of the national chart of accounts to

¹ *Plan Comptable Général*, Imprimerie Nationale, Paris, 1957.

² 'Uniform Accounting in France: *Le Plan Comptable*', by Bernard M. Berry, A.C.A. *The Accountant*, February 26th and March 5th, 1949.

all public and commercial undertakings in France. In the event, a series of decrees have applied the chart, with modifications in each case, to: Government departments (e.g. the *Caisses de Sécurité Sociale* which administer the national health service); public corporations like the French railways and the *Électricité de France*; and some private undertakings guaranteed by the State, or subject to a measure of State control either because the interests of a wide section of the public are affected (e.g. co-operatives) or because they have taken advantage of provisions of the fiscal laws to revalue their assets and liabilities. However, there is no indication in the new *Plan* that its sphere of compulsory application will be enlarged.

On the contrary, the new *Plan* modifies the previous one by suppressing all regulations which called for sanctions in the event of non-compliance, and replaces instructions by recommendations in all places. Further, it states that all sections dealing with book-keeping methods and records are to be regarded as recommendations only in so far as they concern financial accounts; and even those undertakings which are under a statutory obligation to apply the chart are granted virtually complete freedom as to the form and contents of their cost accounts.

Support for the *Plan*

This change of policy is all the more remarkable when it is remembered that one of the objects of the original *Plan* was to reduce practices of tax evasion through falsification of accounts, which had assumed very grave proportions. The explanation lies not only in the swing to the right which has characterized French politics of recent years, but also in the great measure of support which the first *Plan* received by way of its voluntary acceptance. Exact statistics concerning its adoption are not available, but more than 45,000 copies of the first *Plan* have been sold to the public, as well as a vast quantity of books by individual writers about the *Plan*.

It is clear that the *Plan* met a real need, and has been accepted by practitioners as a valuable contribution to their work. Nevertheless, this acceptance has not been unqualified, and the new *Plan* recognizes this. While it has been agreed generally that financial accounts and reports can be made the subject of rules, cost accounting, it is felt, is better served by leaving individual concerns to decide for themselves how to make the best use of their available resources. The idea of State intervention, however, has

been accepted, and it has been recognized that 'a minimum of accounting discipline may be imposed where businesses call for financial aid by the State, or invite its orders' (page 9).

Financial Accounts

A comparison of the French classification of accounts with the German system is instructive.¹ As might be expected, the Cartesian mind reacts with particular directness to so fundamentally analytical a subject as accountancy, and the French classes represent clearly defined groups of accounts whereas the German chart tends to cut across logical groupings in favour of movements. Particularly welcome to those who believe in the superiority of accounting methods over statistical ones is the inclusion of a special section (Class o) for statistical accounts, e.g. for outstanding purchase orders. This should encourage accountants to extend the scope of their accounting without abandoning the principles which guide their book-keeping methods.

The few changes which have been made within the classes themselves bear witness to a courageous attempt to apply logic and basic principles. Two examples can be described here, the treatment of subventions received and of reserves and provisions.

The new *Plan* allocates the number 14 (previously 'Superannuation funds') to 'Subventions of equipment received', which includes subventions given in cash for the purchase of equipment. At the same time, a different account, number 71 in Class 7, is allocated to 'Operating subventions received'. Thus, the recipient of a subvention or subsidy is required to decide whether it is capital or revenue at the time of receipt, according to the facts, and is not allowed to treat it as something neither the one nor the other. Sub-account 141 is called 'Subventions received'; all capital subventions are credited here. Sub-account 147 is called 'Subventions written off', and the reason for this is as follows: equipment received as a gift or purchased with a subvention cannot be capital expenditure of the donee in the year of receipt; if anybody's capital expenditure, it is the donor's. Therefore it is not correct to charge depreciation to the profit and loss account. On the other hand, (a) equipment does depreciate, and (b) the annual value of the gift represents revenue of the year as far as the donee is concerned. This means that provision must be made for writing off

¹ See the author's 'Classification and coding: official charts of accounts in Germany and France', *The Accountant*, January 26th, 1957.

the donated equipment, following recognized commercial principles, and the entries are therefore:

Account 147 - Subventions written off Dr.

To Account 877 - Revenue from
subventions of equipment Cr.

In this way, the sub-sub-accounts supporting 141 (one for each donor) will ultimately be balanced by the sub-sub-accounts supporting 147 (likewise by donors), i.e. as soon as the donated equipment has been written off.

The former account 14, 'Superannuation funds', is suppressed because the new *Plan* draws a clear line between 'reserves' (account 11) and 'provisions' (account 15); the former being assimilated to proprietors' capital (account 10) and the latter to long-term liabilities (account 16). The distinction turns on the question of obligation; thus, if a superannuation fund provides for pensions which the business is legally liable to pay, it is a provision and transfers thereto are expenses; but if it is voluntary and the pensions are payable at will, the fund is a reserve and transfers to it are appropriations of profit.

Mention should also be made of the continuance of the practice of showing expenses by type in the profit and loss account, without striking a balance for the gross profit.

'Many accounting practitioners will doubtless regret that the account does not reveal a gross profit. This point has been the subject of great argument. It has appeared that opinions differ seriously concerning the meaning of this expression, and that it would not be possible to use the gross profit as a basis in calculating "break-even" points unless all so-called "variable" expenses were deducted from sales, irrespective of their type or function (purchasing, production, distribution, administration).' (Page 13.)

The *Plan* envisages the possibility of a profit and loss account which would distinguish between fixed and variable expenses, but does not submit a model.

Cost Accounting

It is the cost accounting section, however, which best displays the progress of French accounting thought during the past ten years. An example of the *Plan's* achievement in the field of terminology is its establishment of the expression *prix de revient* for cost of goods sold, and *coût* for individual cost expense. French accounting students will no longer have to consider that cost is made up of costs.

Further, the *Plan* states that:

'Experience has shown that the method of allocation which proceeds from a distribution of

expenses over similar cost centres is far more satisfactory than that which proceeds to apply a fixed percentage to the cost of direct materials or direct labour.' (Page 14).

It draws attention to the importance of the relation between costs, volume (of production or sales) and profit, in any study of rentability, and includes a useful section containing rules for the division of expenses into fixed and variable. The previous negative attitude towards standard costs has also been discarded, and the *Plan* recommends their use in appropriate cases.

Contra-accounts

Possibly the greatest technical contribution made by the French system to cost accounting is its use of the *comptes reflexis* or contra-accounts, to ensure the autonomy of the cost accounts within the accounting system. It is frequently observed that the integration of cost accounts with financial accounts introduces elements of obscurity into the latter. This is due to the prevailing practice of crediting expense accounts with amounts allocated to jobs, departments or products. Thus, there may be difficulties in the preparation of financial accounts, and the work of auditors may be considerably complicated.

The French system faces this problem squarely; instead of the cost transfers being credited to expense accounts, they are credited to contra-accounts, the sole function of which is to compensate for the debits to the cost accounts. This means that, although financial and cost accounts may be fully integrated, they are both autonomous and complete. Indeed, the *Plan* takes position against any 'netting' of figures in the accounts, and this is to be welcomed as contributing to clarity and respecting the requirements of budgetary control.

The *Plan* deals with a variety of matters in some detail: the valuation of inventories (raw materials, work in progress, finished products, purchased manufactures, containers, spoiled work), and of stocks and shares (held for investment purposes or as working capital); writing off preliminary expenses; the depreciation of fixed assets; and so on. It covers differences in treatment arising from the existence of French and foreign assets, liabilities, revenues and expenses. While it cannot be expected that its definitions, recommendations and explanations will be acceptable to all, one can only welcome the attempt to deal with these matters in an authoritative manner.

FIGURES FOR COST REDUCTION—I

by R. WARWICK DOBSON, C.A., F.C.W.A.

MANAGEMENT, whether engaged upon a programme of cost reduction or not, requires figures at all times. We are concerned here, of course, with the figures required for cost reduction, which in principle amount to much less than the whole of the figures which management requires to function effectively. They still amount to a lot, however, particularly where they relate to all the situations and avenues where reductions in cost can be effected. It is therefore essential, in carrying out a scheme of cost reduction, for management to be selective in the information it requires. To provide all the figures all of the time would place an impossible burden upon both those who prepare and those who use the figures.

I say this at the outset to disarm any possible critics who may be tempted to say, at the end of this paper, that the cost of preparing the many different figures which it is possible to employ would more than offset the savings in cost which might be effected by their use.

With this caveat well in mind let us look at the sort of figures which can usefully be employed when examining those directions in which it is considered costs may be reduced and when following up the effectiveness with which costs are being reduced.

All businesses employ, in varying degrees, materials, labour, supplied services, property and equipment, and capital. This provides us with our first category of figures.

Materials

Figures can focus attention on the following aspects of materials: (a) price; (b) quality; (c) quantity available; (d) quantity used. Let us look at each of these in turn.

(a) Price

It is implicit in this connection that either the price paid at a particular date, or a target price, is taken as a standard against which prices during the cost reduction programme may be measured. The date at which the former price is taken may be that from

which it is decided that costs should be reduced.

The purchasing department can provide at frequent intervals a statement showing in relation to each material or group of materials used, the number of prices quoted by suppliers during the preceding period, which were below the target price, at the target price, and above the target price. Precisely the same information can be given in relation to the orders placed during the period. In the light of a succession of these figures, any desirable or undesirable trend in the prices paid for materials can be detected.

I have deliberately refrained in this connection from using the term 'reduction in price', because that in many circumstances may be undesirable as it may lead to higher costs. Figures of this sort must therefore be used, not in isolation, but in conjunction with other material information.

(b) Quality

Closely linked with price is quality. This factor, however, is not quite so easy to quantify conveniently. The measurement of quality can take place prior to purchase and if purchased, thereafter and during use. Laboratory, test-house, and inspection re-

ports naturally reveal the success or otherwise of materials in satisfying the internal material quality standards of a business. What is much more difficult is the measurement of the effect on labour or plant efficiency of the quality of materials.

Figures of labour and plant efficiency which I will refer to later can throw up the time lost and cost incurred by using materials of a given quality.

(c) Quantity available

Whether too much or too little material is available can be tested in several ways.

Firstly, whether insufficient quantities of any materials are being carried or not, can be tested by figures which show the time lost by operators and plant and the cost of such losses, due to materials not being available at the required time. Figures of this sort emerge where, as I have just mentioned, labour and plant efficiency data are available. Naturally, any improvement or deterioration can be observed by comparing data of this sort for successive weeks or months. Another series of figures



Mr R. Warwick Dobson

which can be used as an additional test are stock turnovers. In this case, one can use a statement which shows the number of times the quantity of a given material in stock at the beginning of a period was contained in the quantity of that material used during that period. The comparison of stock-turnover data for successive periods of time provides a useful pointer to improvement of material availability. The defect of such data is that while a reduction of the turnover ratio indicates an improvement in the supply position, any reduction beyond a certain ratio (which is individual to each material) reveals a worsening of the supply position in so far as more stock than really necessary is being carried with a consequent excess cost of investment of capital.

Secondly, whether excess stocks of materials are being carried can be measured, as I have just said, by a lowering in the stock-turnover ratio beyond what is considered the critical ratio for each material or group of materials. This critical ratio must, of course, be determined by those responsible for carrying out the cost reduction programme so far as it embraces materials.

An overall test which can be applied in advance of production, is provided by the relationship between the value of orders placed during a period for both production materials and supplies for indirect services, and the value of the production which will be produced during the period for which it can be said the materials will be required.

Here we find ourselves immediately in the realms of budgetary control of materials which is, of course, a continuous and long-term means of cost control which is of the utmost value.

(d) Quantity used

The quantity of any material found in the final product of which it forms part is usually very different from the quantity of that material purchased by a business. The loss in quantity may occur during storage, issue and handling, and processing. Given adequate records of materials and production, losses during storage, issue and handling, and spoilage during processing can be readily expressed in terms of quantity and value which can be related percentage-wise to the quantities and values of materials purchased.

What is much more difficult to measure, however, is the loss in material which arises from the actual processing itself. Here we are right in the region of product design and manufacturing methods. To measure this important loss, one can only determine by calculation the quantity of material contained in the final product and, by substitution in the equation of material utilization, calculate the quantity and value lost during processing.

It will, I suggest, be something of a shock to management engaged in cost reduction to find that a comparatively small proportion of many materials is effectively used.

Labour

In the same manner as materials, figures may be prepared relating to the following aspects of labour, which I take to denote people engaged not only in production, but in selling, distribution, administration and the provision of services.

(a) Rates of Pay

Whether rates of pay are negotiated collectively or individually, the assessment of the excessiveness or otherwise of rates of pay is probably the most difficult exercise of all. It is almost impossible to find a really satisfactory base upon which to assess rates of pay. For comparison, standard rates may be adopted for every employee or for every task (which-ever may be the more appropriate) and the rates payable at different points in time may be measured against the standard. But how is the standard to be assessed? By job evaluation, by applying the time-span of responsibility concept, by finding out what one can afford to pay, by ability, or by 'guesstimate'? However, such considerations come within the scope of this paper only because they affect the degree of confidence which management should be prepared to place on information of this sort.

(b) Numbers employed

Having disposed, rather unsatisfactorily from the cost reduction point of view, of the difficult aspect of labour statistics, we can now come to an easily-measured quantity, namely, numbers employed.

Two aspects are important. Firstly, other things apart, the number of people employed by a business should be no more and no less than essential for the business.

In this connection, one can set standards of the number of persons required for a given volume of a specified activity. This is an exercise of some complexity, but if reliably objective comparisons are to be made over the duration of a cost reduction programme, such standards must be fixed. Assuming that standards have been set in relation to the anticipated volume of work during any period, then the standard and actual number of employees of each class at the beginning of that period can be compared. Naturally, a considerable degree of flexibility must be used in preparing information of this type.

An overall test, which does not involve standards, consists of a succession of data at stated intervals, showing numbers employed in each class or each department or activity of the business. Naturally any variation upwards or downwards in these figures must be compared with the accompanying variations in production, output, or activity in which the labour is engaged. In many cases, money is the only common denominator of output or production.

Secondly, the frequency with which people enter and leave their employment is a matter of some

concern where the level of costs is to be reduced. Attempts have been made by several firms to measure directly the costs of labour turnover in terms of the cost involved in training and servicing new labour and in terms of production and profit lost as a result of it. This information is difficult to compile accurately, as it is an amalgam of actual and hypothetical costs both directly and indirectly incurred.

I think one must accept the fact that labour turnover is costly. Then it is adequate for cost reduction purposes to use data which shows the number of people who have entered, and the number of people who have left, the employment of the firm. This data can be shown as required according to age, sex, department, skill, etc. By means of this sort of data, the movement of labour, both internally and externally, can be shown over a succession of periods of time. Any reduction in movement compared with the labour force, either in total or in any particular sector can be easily identified.

Naturally, the reason why an employee leaves a firm is important and a statement prepared by the personnel department setting out the number of people who have left during a specified period for a particular reason is of very great assistance in trying to put right the causes of labour turnover. Trends in numbers and causes can be deduced from a succession of such data.

(c) *Labour time*

Like materials, there is frequently a substantial difference between the time which a person can be said to be available and the time during which that person is actually engaged in productive work. There are three aspects in relation to which such data can be produced.

Firstly, attendance and absence: Absence, like labour turnover, has a marked effect on cost in the form of lost production and the reservoir of labour carried to compensate for absence. Also, like labour turnover, attempts have been made to assess directly the cost of absence in several firms with, one must admit, corresponding difficulties of measurement. If we concede that absence is costly, we can use simply collected data on attendance time, and time lost through absence, giving, where possible, the causes of absence. These figures can be shown analysed under any required category, for example, according to sex, age, skill, department, or any combination of these. Percentages can be used to advantage to show the relationship between attendance and absence time and between causes of absence.

Trends may be observed from a succession of such data and much useful information about the causes of absence controllable by the firm can be obtained from these figures.

Secondly, productiveness and idleness: Like attendance and absence, productiveness and idleness can be indicated by data which shows for a given period

the time engaged on production and the time occupied idly. The time lost through each cause is a useful adjunct to this information. This data also may be analysed according to convenient headings, such as departments, and may be supplemented by percentage relationships. Attention can thus be focused on those departments, processes, or classes of employee where idleness is excessive and to those causes of idleness such as lack of materials as I mentioned previously, the remedy of which can result in the reduction of labour costs.

Thirdly, efficiency: Expressed simply, efficiency is the measure of production achieved during a specified time. This data, which shows for the labour in a given department, or for the labour of a given age group, sex, or skill, the quantity produced in a given period, will reveal the efficiency of labour.

This, of course, is a relatively easy exercise, where the products of the labour are homogeneous and can thus be expressed in simple numerical terms. More frequently, output cannot be expressed in such simple terms because products are not homogeneous. In this case, time is the only reliable common denominator, but this involves setting and recording standard operation times for every product and every process. Given this basic data, it is a simple matter to show in a statement the time occupied in production by any given category of labour and the measure in terms of time of the production achieved during that period of time by that category of labour. The percentage relationship between the standard time equivalent of the output and the time taken is a measure of the labour efficiency.

As an alternative, where these standards are not available, but piece-work wages are available, a comparison between piece-work wages and the equivalent time-work wages will provide an empirical measure of labour efficiency.

Of greater importance from the view of reducing costs, is the causes of losses of labour efficiency. It is not an easy thing to provide data which will reveal causes. Firstly, records must be made during production, and secondly, the causes themselves are not immediately apparent. The operator himself may be the cause; the plant he operates may be responsible; and the materials, tools, and supplies he uses may result in the loss of efficiency of the operator – all of these very difficult sources of inefficiency to evaluate, record, and present in numerical terms.

In the majority of cases, technical investigations must be carried out and technical data studied.

Supplied Services

As with other factors of production we are concerned here with the price paid and the quantity of the service used.

(a) *Price*

Charges for services supplied to a business are of two types, namely, those such as electricity, freight,

rent, advertising, insurance, which can be related to the unit of quantity or value, as the case may be, on which the price charged is usually calculated and those such as professional charges, gratuities, retirement benefits, personal expenses, which cannot be related to any unit of quantity.

Naturally, the former type of charge is more easy to express in figures which can be easily calculated when required or as a routine for scrutiny by those who are responsible for reducing costs.

The latter type of charge is capable, in certain cases such as personal expenses of representatives, of being assessed in relation to the business done, but the costliness or otherwise of the majority of such expenses cannot be assessed objectively and therefore are not susceptible of figure presentation. I know that one can compare what Sam Whipple spent last month with what he spent this month and get a rough guide, but that is hardly the kind of information one must have when the reduction of costs, as distinct from the reduction of expenditure, is the objective of the exercise.

(b) Quantity

The services supplied to a business are so diverse that no general rule is available which will govern the manner of showing, in terms of figures, the quantity of every service used. One can only say that where a convenient measure of quantity is available in relation to which the quantity of the service can be expressed, then such a figure should be calculated as will reveal improvements in cost.

Property and Equipment

We are concerned in cost reduction with three aspects of property and equipment, namely, its cost of maintenance and operation, the extent to which it is used, and its efficiency.

(a) Cost of maintenance and operation

Providing the necessary detailed records are kept to identify maintenance and operating expenditure with each item of property or equipment, figures can easily be prepared to show periodically the cost of maintaining and operating the property and equipment of a business.

This information should be analysed in more than one way. For example, costs of maintaining and operating machinery should show not only the cost of machinery in particular departments, but machinery of a given class or of varying ages, if such factors are significant. The difficulty about maintenance costs is that they are incurred in large amounts in one period on one particular item of equipment, except, of course, where planned maintenance is the policy of the business. As a result, comparisons of maintenance costs can usually be made only over long periods of time - much too long to be of practical value. With these limitations, however, figures of this sort can be used in cost reduction programmes.

(b) Utilization

From a cost reduction point of view, this is probably the more important aspect of property and equipment. Again providing the basic records are available, figures which show utilization of equipment are easy to provide.

Here, for example, one can show periodically, in respect of any combination or classification of equipment, the number of hours for which the equipment is available, the number of hours for which it is practicable to employ it, the number of hours for which it is idle, and the number of hours for which it is engaged in production. Such figures as these disclose effectively the extent to which equipment is under-employed. Naturally, any assessment of under-employment of equipment must be related to its cost of operation and maintenance to which I have already referred.

It is apparent that these utilization figures do not provide the whole of the information. It is essential to have also an analysis of idle time. Again, providing the basic records are available, the time lost through breakdowns, waiting for operators, work, materials, or instructions, or setting up, or cleaning down, can be shown in periodical statements under appropriate categories such as department, class or age of machine.

The percentage relationship of hours lost due to each cause to the productive hours gives a useful pointer to improvements or otherwise which occur during the cost reduction programme.

I have included in these figures the time involved in changing from one job to another. I have done so intentionally, because if this time is included in productive time, the effect of varying lengths of run of production will be obscured, and that, of course, must not be done where cost reduction is the aim.

(c) Efficiency

You will remember that when I was discussing labour efficiency, I suggested using the time equivalent of the products based on standard operation or process hours, as a useful measure against which the actual productive time might be equated and an efficiency ratio calculated. I suggest that to assess machine efficiency, the same comparison should be made over a succession of periods and presented in a convenient form to management. Again, the figures can be classified according to any convenient and appropriate category, such as department, class of equipment, or age of equipment.

I am certain that the volume of recording which, on the face of it, requires to be done to provide information of this sort will appal most of us. However, we can apply sampling techniques to obtain less voluminous but equally reliable basic data.

Capital

Of considerable importance, though perhaps not quite obviously, in cost reduction, is the cost of providing capital. Figurewise, it is easy to say that

an overdraft of £100,000 at 6½ per cent is going to cost us £1,000 a year more than the same amount of 5½ per cent preference shares, if only we had preference shares! I suppose that sort of thing hits us in the eye. But when we ask ourselves why we can't save the £1,000 by reducing our overdraft to just under £85,000, the answer is not quite so obvious. If we want to show a reduction in the cost of providing capital for the business, we can only do so indirectly by means of ratios and comparisons of the various sources of capital and the various dispositions of capital.

The most fruitful source of reduction in the cost of capital is working capital itself – the stocks, the debtors, the cash – less liabilities on trade account, taxation, etc. To measure the effect of any crusade to reduce capital costs, I suggest the most helpful figure is the annual turnover of each current asset and each trade liability. The higher the turnover

ratio becomes, the more effectively are we employing our resources, the smaller are our requirements of capital, and, correspondingly, the smaller is the interest charge we have to pay to those who finance us, in these days, a very substantial cost indeed.

You will remember I mentioned turnover ratios in connection with figures on materials. I am asking management to turn its costing activities to trade debts and liabilities as well, a sphere of interest traditionally in the financial and not the costing field.

I have not forgotten the cost of providing capital for investment in permanent assets. The difficulty so far as cost reduction is concerned, is that once you have got the permanent assets you cannot easily rid yourself of them and so there is not much you can do about it. There is much more scope for cost reduction in providing working capital which varies from day to day, sometimes dangerously.

(To be concluded.)

Weekly Notes

President of the Institute a Member of New Royal Commission

Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of The Institute of Chartered Accountants in England and Wales, has been appointed a member of a new Royal Commission which is to survey the structure of local government in the Greater London area.

The setting up of the Commission was announced in the House of Commons by the Prime Minister last Tuesday. Sir Edwin Herbert, K.B.E., LL.D., who was President of the Law Society in 1956, will be the Commission's chairman and its other members will be Mr Paul Cadbury, Miss Alice Johnston, Professor W. J. M. Mackenzie, Sir Charles Morris and Sir John Wrigley. Mr J. R. Niven, of the Ministry of Housing and Local Government, is the secretary.

Its terms of reference are:

'To examine the present system and working of local government in the Greater London area; to recommend whether any and if so what changes in local government structure and the distribution of local authority functions in the area, or in any part of it, would better secure effective and convenient local government.'

The Latest Inflation

Delivering the Stamp Memorial Lecture last week, Professor R. G. D. Allen, Professor of Statistics at London University, dealt with the subject of the current inflation in this country. He considers that this inflation is different in cause from its two predecessors. The ones which lasted from 1946 to 1948 and from 1950 to 1952 respectively had for origin a fairly rapid upward adjustment in commodity prices. Their outstanding characteristic was

a sudden upsurge followed by a period of comparative stability.

The latest inflation which has lasted since 1954 has been much more of the creeping variety. It owes much more to factors which are within our control and we have signally failed to control them. Professor Allen is not prepared to be dogmatic on the question of cause and effect in dealing with inflation but his views definitely incline towards the official diagnosis of our present troubles. Speaking as a statistician he is bound to point out the gaps in our statistical information when analysing economic trends. The statistical sources have been improved in recent years but we are still lacking in a full complement of observed facts to analyse the causes of inflation. Perhaps more important from the lay point of view, we are slow and reluctant to take avoiding action in dealing with causes while they are still limited in their impact on the economy.

No Respite for Shipping

At a luncheon held by the London and District Society of Chartered Accountants at the Connaught Rooms last Monday, the guest speaker was Sir Donald Anderson, a deputy-chairman and managing director of the Peninsular and Oriental Steam Navigation Company. Mr E. Kenneth Wright, M.A., F.C.A., chairman of the Society presided, and among the guests were Mr J. Kraayenhof, President of the Seventh International Congress of Accountants, Mr A. S. MacIver, Secretary, The Institute of Chartered Accountants in England and Wales, and Mr A. C. Simmonds, F.S.A.A., chairman, and Mr C. A. Evan-Jones, M.B.E., secretary, of the Incorporated Accountants' London and District Society.

Referring to shipping companies' accounts, Sir Donald said in the course of his address, that the

Shipping Companies Exemption Order, 1948 (which allowed them, if they wished, 'to hide their light under certain bushels'), underlined the extreme degree of competition which existed.

Sometimes, said Sir Donald, people spoke as if shipping was one of the sheltered industries, but undoubtedly it was not. In no other industry was competition so marked. Shipping had no home market: the coasts of the United Kingdom were open to ships from anywhere and there was no coastal reservation at all; they had no subsidy, no tariffs, no protection. They received no development money and there were no free services from the Government; they had to provide their own port facilities and their own meteorological services, etc., out of their earnings, which, he mentioned, was not the case in other forms of transport.

We hope to reproduce Sir Donald's interesting address in an early issue.

Bank Rate 'Leak' Tribunal Appointed

The composition of the tribunal of inquiry into the alleged Bank rate leakage was announced in the House of Commons on Thursday of last week. The chairman of the tribunal is Lord Justice Parker (who was a member of the Franks Committee on Administrative tribunals), and its two members are Mr E. Milner Holland, Q.C., Attorney-General of the Duchy of Lancaster, and Mr G. Veale, Q.C., Recorder of Leeds.

The terms of reference of the tribunal are to inquire:

'whether there is any justification for allegations that informations about the raising of the Bank rate was improperly disclosed to any person, and whether, if there was any such disclosure, any use was made of such information for the purpose of private gain'.

The tribunal will be set up in conformity with the Tribunals of Inquiry (Evidence) Act, 1921, which provides that the tribunal should not refuse to allow the public to be present unless it is in the public interest for reasons connected with the subject-matter of the inquiry or of the nature of the evidence to be given. The scope of the inquiry is now a matter for the tribunal alone to decide; it will have the powers of the High Court over witnesses and documents.

Any communications on the subject of the inquiry should be addressed to the secretary of the tribunal at the Royal Courts of Justice, London, WC2.

Import Duty Reform

The Queen's speech at the opening of the new Parliamentary session referred to the Government's intention to introduce legislation to 'revise and codify existing legislation relating to import duties'. The Board of Trade has now issued a memorandum explaining the scope of this new legislation. A new Bill will empower the Treasury to impose import duties, by order made on the recommendation of the Board of Trade, to give tariff protection to United

Kingdom goods, to give Commonwealth preference, and to impose retaliatory duties against the goods of countries which discriminate against the goods of the United Kingdom or the colonies.

One important purpose of the Bill will be to enable the Treasury to introduce a new tariff based on the Brussels nomenclature and replacing the old tariff. All the existing legislation relating to protective duties will be replaced; thus the Import Duties Act, 1932, the Ottawa Agreement Act, 1932, the Safeguarding of Industries Act, 1921, the legislation which imposed the silk and artificial silk duties (the Finance Acts of 1925, 1932 and 1933), the Beef and Veal Customs Duties Act, 1937, the Import Duties (Emergency Provisions) Act, 1939, and some seventy amending Finance Act sections will be repealed and replaced by the new Bill.

Machinery adapted to present conditions will replace the existing arrangements for dealing with applications for changes in duty. A new 'Import Duties Board' will be set up to advise the Board of Trade with power to recommend drawback relief and relief from duty on individual consignments of goods in special circumstances.

Estate Duty on Paid-up Policies

The Court of Appeal has dismissed the appeal of the taxpayer in *Re Hodge's Policy* from the decision of Harman, J., that the whole of the moneys payable on a life policy were dutiable under Section 2 (1) (c) of the Finance Act, 1894 (*The Times*, November 14th, 1957).

In 1912 the plaintiff's father effected a £10,000 policy on his own life and in 1913 assigned it to trustees for the plaintiff's benefit. By 1916 the policy was fully paid up. In 1935 the plaintiff mortgaged it to the insurance company. When the father died in 1950, the amount outstanding on the mortgage was £5,000. Nevertheless, the Inland Revenue claimed duty on the full policy moneys, on the ground that the policy had been wholly kept up for the plaintiff, by the deceased, within the meaning of Section 11 (1) of the Customs and Inland Revenue Act, 1889, which is applied to estate duty by Section 2 (1) (c) of the Finance Act, 1894.

The Master of the Rolls said it caused no less shock to himself than to Harman, J., that a policy which had come to the plaintiff, and been paid up, over thirty years before, should attract duty on the donor's death. However, the remedy was with Parliament. As to the question whether the £5,000 mortgage money should be deducted, the answer must be in the negative, since it was the policy moneys which were taxed. The Inland Revenue asked and were granted the costs of the appeal.

During the Finance Bill debate on July 3rd, 1957, the Financial Secretary to the Treasury admitted that the result in *Re Hodge's Policy* (36 A.T.C. 51) was impossible to defend. The Chancellor recognized that the law called for amendment but would take no action while that case was under appeal.

Trade Unions in 1956

The operations of trade unions during 1956 are dealt with in Part 4 of the Report for 1956 of the Chief Registrar of Friendly Societies published last week.¹

The membership of registered unions of employees increased during 1956 from 8,517,000 to 8,549,000. Their total income of £23,423,000 (of which £20,479,000 was subscribed by members) was £1,330,000 higher than in the previous year, and their expenditure increased by £1,041,000 to £20,431,000. Working expenses, which relate to the expenditure incurred in the management of a union in pursuance of its statutory objects and include the cost of administering its trade and provident benefits, were £810,000 higher than in 1955 and accounted for nearly 60 per cent of this expenditure. Provident benefits (that is sickness and accident, death and superannuation benefits) accounted for over 20 per cent of the expenditure, trade benefits (that is unemployment, dispute and similar benefits) for about 5 per cent, other benefits for about 6 per cent, political fund expenditure for 2 per cent, and other outgoings for about 7 per cent. Expenditure on dispute benefit was £170,000 more than in the previous year.

Cheaper Money in the United States

After a week-end to think about it, the opinion in the City of London at the beginning of this week was still that the cut in the New York discount rate by four federal reserve banks would stimulate economic activity in America. Increasingly, the prospect for this country's avoidance of a depression is being tied to a recovery in American industrial activity; hence the favourable reaction to the news from New York. One of the most immediate results of the lowering of discount rates has been a cut in the interest rate of the Industrial Development Bank in Canada.

The fall in the New York rate was something of a surprise even in the United States and technical readjustments in the New York money market were still being made on Monday of this week. The fall is only of $\frac{1}{8}$ per cent but it signalizes a revision in the United States official attitude. That view is now that the danger of inflation in the United States has been removed.

Views on German Trade

A call to Western Germany to stimulate its foreign lending is made in a report now issued by the Organization for European Economic Co-operation on economic conditions in Germany. The report points out that a substantial favourable trade balance is to be expected in Germany with the rest of Western Europe but this lack of balance must be offset by higher foreign investments, otherwise the present critical foreign exchange position in Western Europe will continue indefinitely.

While accepting the valuable gesture made by

Germany in increasing its imports, O.E.E.C. points out that the crux of the matter is the high rate of interest in Germany, a rate which has been exceedingly successful at home by allowing industrial expansion without serious inflation so long as there was less than full employment. But this high rate has also made it difficult to stimulate overseas lending and has, of course, attracted short-term funds to Germany. Such a prescription for the economic benefit of the rest of Western Europe will not probably appeal to Germany as full employment develops and wage increases are becoming increasingly demanded, with some success, by the trade unions.

O.E.E.C. Talks Begin Well

Last week the first serious negotiations on the free trade area opened at ministerial level in Paris. When the meeting broke up at the end of the week-end the ministers were reported to be well satisfied with their work. For the first time in this round of meetings O.E.E.C. was able to hear the French view explained by a French Government spokesman. M Faure expressed serious reservations in expounding the French attitude but he added no difficulties to those which were already known.

Two specific problems have been referred to expert committees for review by the end of November. One group has been instructed to draw up rules on definitions of origin and another has been told to examine what arrangements should be made for the inflow of capital into countries like Greece, Turkey and Portugal to enable them to build up their industries so that they can compete in a free trade area. The first of these is much more difficult and basic to the free trade area conception than the second.

Variation of Trusts

The sixth report of the Law Reform Committee, published on Tuesday as a White Paper,² recommends an alteration of the law so as to give to the High Court the same power of sanctioning variations in trusts as it had before the House of Lords decision in *Chapman v. Chapman* (33 A.T.C. 84).³ If the recommendation is adopted, a new section of the Law of Property Act, 1925, will enable the Court to bind the interest of all the beneficiaries even though they may be under age or not yet born, provided that the Court is satisfied that the variation is beneficial. The Committee accepts the propriety of variations directed to avoiding tax as well as those whose object is merely to provide money in an emergency.

Productivity and Shift Working

Attention is drawn in the latest Treasury Bulletin for Industry to the large amount of shift working done in the United States compared with this country. It points out that in these days when capital investment

¹ H.M.S.O. 2s 6d net.

² Cmnd. 310, H.M.S.O., 8d net.

³ See *The Accountant*, April 3rd, 1954, at page 360.

is to some extent held up by high interest rates, extensive modern machinery may get a higher usage by being operated for longer hours. In other words, expensive machines best justify their overheads by operating as near as possible round the clock. The disparity between the amount of multiple shift working in America and here suggests that there is room for more shift working in this country and therefore greater productivity and a larger output from a given amount of equipment.

This is a tempting theory in these times. It may even be true of isolated factories. In many localities, however, it is not a practical solution. Taking the country as a whole, it is difficult to move over rapidly

from single to multiple shift working without a major disruption of industry caused by a switch in the labour force from one industry to another which wants to work the double shift. It follows that there must be a temporary dislocation of labour for such an objective to be achieved and this can only be done by what amounts to a certain amount of short-term unemployment. This is a politically dangerous doctrine for it is certain that if the unemployment percentage in this country rose above, say 2 per cent, there would be a public outcry. In the United States fluidity of the labour force and a significant short-term unemployment rate are expected. The same may well be true in Communist countries.

Finance and Commerce

A reduction of interest rates in the United States has led to an improvement in stock-market sentiment on both sides of the Atlantic even though there is little prospect of any parallel easement of rates on this side. The Government here can hardly be expected to go into the wages battle with the Bank rate reduced from the present level. Improved sentiment in the market will have to stand the test of probably prolonged wage disputes in industry and of a continued pressure on industrial profit margins.

Assets and Earnings

Sir John E. Thornycroft, governing director and chairman of John I. Thornycroft & Co Ltd (whose accounts we reprint this week), tells shareholders that a professional valuation of the land and buildings at Woolston and Northam shipyards is to be obtained during the current year. This will assist the board in settling the fire insurance values, he says, and also give an indication of the present-day capital employed in the business.

But there is also another angle to it. Often in statistics prepared to support wage claims, Sir John says, profits are compared with issued share capital and not with the shareholders' interest: assets less liabilities. Companies which have been in operation for many years and have consistently adopted a prudent depreciation policy, he points out, have their fixed assets valued in the balance sheet well below their replacement cost and this has been accentuated by the depreciation in purchasing power of the currency.

Assets, Sir John tells shareholders, are only worth the profits that can be made from them over a period of time, covering good and difficult world trading conditions. But this is no reason why, during maximum capacity operation, misleading profit percentages should be used when trying to substantiate that the industry, or any firm in particular, is making excessive profits. It is rarely stated, he says, that approximately 50 per cent of these profits accrue to the Exchequer to finance Government expenditure.

The Other Side

There is an opposite angle to the depreciation problem in the case of Norcross Ltd. This company became public in June 1956 with two subsidiaries: Norinco Ltd, owning the Normanby land and properties in Lincolnshire with the ironstone deposits; and Dapag (1943) Ltd, manufacturers of tickets, labels, etc., and of the Tickopress range of overprinting machines. It has since developed as an industrial holding company providing a means by which the owners of private companies 'can avoid the destruction of their life's work by penal taxation and death duties, and yet retain an active interest by continuing to manage their companies, and by investment in their parent company of which they become an active, participating member'.

Mr J. V. Sheffield, the chairman, in his statement with the accounts, touches on 'one point of criticism that has been voiced in some sections of the financial Press, namely, the value of our assets in relation to the market value of the ordinary shares'.

Most of the company's subsidiaries, he points out, have been profitable going concerns for many years and their assets have been written down drastically. He notes that many public companies have revalued assets and issued bonus shares, but the board, he says, feels that 'this only creates difficulties for the future, since depreciation provisions have to be greatly increased without any corresponding saving in taxation'. 'The value of assets in industrial companies', says Mr Sheffield, 'depends on their ability to earn profits under efficient management'.

The company now has nine subsidiaries covering a wide range of activities. A short description is given of each with their date of acquisition and the composition of their boards of directors.

Opinions Differ

On the question of giving the chairman's annual statement with the accounts, opinions may differ. In this column, we have urged from its early years that the annual publication should be as full a guide

to the position of a company, its business and prospects as is possible. And this practice has been adopted by so many leading companies that the alternative of 'chairman's speech at the meeting' is exceptional.

'Speech at the meeting', however, is the rule for shareholders in the Tap & Die Corporation Ltd and one has to accept the fact that where freedom of choice exists, it would be almost a miracle if everyone thought alike. There has this year been some extension of the directors' report but it is obviously not intended to trespass too far on the chairman's preserve at the annual meeting. Possibly from this small beginning, more may come in the course of time.

What we cannot understand about this company's annual report is the page given to 'Where the money goes'. As last year, it consists of five segmented circles to show what proportion (in red) goes in raw materials and services, to employees, in taxation,

to reserves and in dividends. And there is still no more than the geometrical pattern.

A rough measurement gives the proportions of the circles in degrees against the five items as 120, 120, 60, 30 and 25 leaving five degrees out of the 360 as due to approximation.

What this 'Where the money goes' needs to make it really worth while is figures and a short statement of the basis of the split-up.

Money Market

At maintained bids of £98 7s 1d for both the 63-day and 91-day bills offered on November 15th, the market obtained 81 per cent allotment of the former and 23 per cent of the latter. The average discount rate for the 63-day bills was £6 12s 8-81d per cent and for the 81-day bills £6 11s 7-45d per cent. This week's offer is for £50 million of the shorter and £210 million of the longer bills.

JOHN I. THORNYCROFT & CO. LIMITED PARTICULARS RELATING TO COMPANIES NOT CONSOLIDATED

Thornycroft Argentina Limitada Sociedad Anonima Comercial e Industrial as at 31st July, 1957.

	Argentine Pesos	Applicable to members of the Parent Company
ISSUED SHARE CAPITAL—		
73 Non-Cumulative Participating Preference Shares (7½%) of A\$P 1,000 each fully paid (of which 5 are held by outside Shareholders)	73,000	68,000
300 Ordinary Shares of A\$P 1,000 each fully paid (owned or covered by options held by John I. Thornycroft & Co. Ltd.)	300,000	300,000
	<u>373,000</u>	
LEGAL RESERVE	34,514	34,514
PROFIT AND LOSS ACCOUNT—Balance at 31st July, 1956	1,008,371	
Add—Exchange Profit realized in the year	160,554	
	<u>1,168,925</u>	
Less—Loss for the year ended 31st July, 1957	73,278	
Local Income Tax	55,000	
Appropriation to Legal Reserve	2,523	
	<u>130,801</u>	
	1,038,124	1,038,124
		<u>A\$P 1,440,638</u>

Thornycroft Mecanica e Importadora, S.A. as at 31st July, 1957.

	BRAZILIAN CRUZEIRO	All owned by John I. Thornycroft & Co., Ltd.
ISSUED SHARE CAPITAL—		
170,000 Shares of Cr\$ 200 each fully paid	34,000,000	
CAPITAL RESERVE	1,910,930	
REVENUE RESERVE—		
Reserve for Difference on Exchange	6,595,263	
Less—Amount realized and transferred to current profits	3,061,840	
Amount used	115,735	
	<u>3,177,575</u>	
	3,417,688	
PROFIT & LOSS ACCOUNT—		
Balance as at 31st July, 1956	927,633	
Add—Profit for the year ended 31st July, 1957	377,150	
Profit on Exchange realized in the year	3,061,840	
	<u>4,366,623</u>	
Less—Local Income Tax	1,062,778	
Tax on Increase of Capital	551,716	
Appropriation towards Increase of Capital	1,817,157	
Appropriation to Capital Reserve	370	
	<u>3,432,021</u>	
	934,602	
The increase in capital from Cr\$ 29,000,000 to Cr\$ 34,000,000 has been made by transferring Cr\$ 768,643 from a provision and Cr\$ 1,817,157 from Profit and Loss Account, and by writing up Land and Buildings by Cr\$ 2,414,200		
	Cr\$ 40,263,220	

Despite the existence of a free rate of exchange by which certain monies could be sent to the United Kingdom from Brazil and the Argentine, your directors are of the opinion that there are uncertainties that make it misleading to deal with these two companies in the group accounts of the company and its other subsidiaries.

Thornycroft Housing Association Limited

This Association was registered on the 9th May, 1952. In view of the insignificant amounts involved, your Directors are of the opinion that consolidation would be of no real value to members of the Company.

Thornycroft (Egypt) Limited

As the assets, seized by the Egyptian Government, are of insignificant amount, the directors now consider that their inclusion in the group accounts would be of no real value to members of the Company.

J. E. THORNYCROFT }
J. W. THORNYCROFT } Directors

G. A. MURRAY, Secretary

JOHN I. THORNYCROFT & CO. LIMITED AND FIVE SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at 31st July, 1957

1956	1957	1956	1957
£	£	£	£
CAPITAL AND RESERVES			
SHARE CAPITAL OF JOHN I. THORNYCROFT & CO., LTD.—			
1,950,000	as set out on page 8 of the report*	1,950,000	
REVENUE RESERVES—			
2,294,571	General	2,540,694	
100,000	Overseas Exchange Reserve	200,000	
269,725	Future Income Tax 1958/59	360,975	
631,288	Profit and Loss Accounts (carry forward)	530,658	
3,295,584		3,632,327	
5,245,584		5,582,327	
SURPLUS OF ASSETS OVER LIABILITIES: INTEREST OF SHAREHOLDERS OF JOHN I. THORNYCROFT & CO., LTD.			
Applicable to: 6 per cent. Cumulative Preference Shares £200,000			
Participating Preferred Ordinary Shares £250,000			
Ordinary Shares £4,771,352			
Future Income Tax Reserve £360,975			
CURRENT LIABILITIES			
44,087	DUE TO SUBSIDIARY COMPANIES not Consolidated, plus profit on Stocks unsold	39,841	
1,287,819	CREDITORS AND ACCRUED EXPENSES (including £45,091 secured)	1,425,710	
28,986	SPECIAL PROVISIONS	28,186	
537,907	PROVISION FOR CURRENT TAXATION (including £259,725 transferred from Future Income Tax Reserve)	363,224	
—	BANK OVERDRAFT OF OVERSEAS SUBSIDIARY COMPANY (secured)	24,392	
75,684	PROPOSED FINAL DIVIDENDS (NET) of John I. Thornycroft & Co., Ltd.	88,622	
1,974,483		1,969,975	
FIXED ASSETS (see note below)			
1,000	GOODWILL, PATENTS, TRADE MARKS AND DRAWINGS	86,672	85,672
753,635	LAND AND BUILDINGS	1,547,713	757,104
236,562	PLANT, MACHINERY AND WORKS CRAFT	1,700,927	1,450,821
36,897	WORKS FIXTURES, FITTINGS, SERVICES AND OFFICE EQUIPMENT	186,670	128,458
1,028,094	TOTAL FIXED ASSETS	3,521,982	2,422,055
INVESTMENTS			
21,250	IN SUBSIDIARY COMPANIES NOT CONSOLIDATED (at cost less Amounts written off)		21,350
CURRENT ASSETS			
3,488,172	STOCK, JIGS, FIXTURES, PATTERNS, DIES, LOOSE PLANT, TOOLS, AND WORK-IN-PROGRESS, including accrued profit, as valued in the Accounts consolidated, less instalments received on account of Work-in-Progress and reserve for inter-company profits in these values		3,954,254
1,720,365	DEBTORS, BILLS RECEIVABLE AND PREPAYMENTS, less provision for Doubtful Debts and Contingencies		1,686,343
404,325	TAX RESERVE CERTIFICATES		121,100
200,000	LOANS TO CORPORATIONS		150,000
357,861	BALANCES AT BANKERS AND CASH IN HAND		519,328
6,170,723			6,431,025

£7,552,302

£7,220,067

£7,220,067 Commitments for Capital Expenditure have been entered into by the Group amounting to approximately £82,000.

£7,552,302

The Companies consolidated above are Transport Equipment (Thornycroft) Limited, Basingstoke Buildings Limited, Thornycroft (Hampton) Boatyard Limited, Thornycroft (Australia) Pty. Limited and Thornycroft (New Zealand) Limited. The Companies not consolidated are Thornycroft Mechanicals & Importations S.A., Thornycroft Argentina Limitada, Societat Anonima Comercial e Industrial, Thornycroft (Egypt) Ltd. and Thornycroft Housing Association Ltd. Brief particulars relating to these are given on page 14 of this report.

With the exception of Works Fixtures, Fittings, Services and Office Equipment, which appear at book value at 31st July, 1947, less subsequent sales, plus additions at cost, the basis of valuation of Fixed Assets is cost.

Basis of Conversion of Foreign Currencies AS STATED ON PAGE 9 OF THIS REPORT.*

*[Not reproduced. — Ed.]

[*Reproduced on page 605. — Ed.]

* Not Reproduced. — Ed.]

Carried forward 433,443

Current Law

Settled Land or Trust for Sale

The rule in *Howe v. Earl of Dartmouth* ((1802) 7 Ves. 137) was considered by Vaisey, J., in *Re Gough, Phillips v. Simpson and others* ([1957] 2 All E.R. 193). Under the rule such parts of a testator's residuary personal estate as are of a wasting nature ought, where he has given the estate in trust for persons in succession, to be converted and invested in investments having a permanent character, so that the property is preserved for successive beneficiaries. The testator in *Re Gough* provided:

'... the residue of my estate real and personal whatsoever wheresoever situate I leave to my ... wife in trust for life. On the demise of my wife I bequeath to [M.] or her issue the residue of my property real and personal, and after their demise to the St Dunstan's Home for Blinded Soldiers. If necessary for my wife's comfort she is entitled to sell Brook Cottage ... and retain proceeds.'

The testator's estate included (*inter alia*) a house, 51 Bernard Street, held under a lease for ninety-nine years less one day, of which more than sixty-five years were unexpired at the testator's death. The testator died in 1935 and after his death his widow lived, with the agreement of St Dunstan's, at 51 Bernard Street, but after her death, in 1954, St Dunstan's suggested that that property should be sold and the proceeds invested in authorized trust securities. M. predeceased the testator's widow leaving issue four persons, namely, a son and three grandchildren, two of whom were still infants and all of whom were defendants to the summons taken out by the executor for the construction of the testator's will. M.'s son and her adult grandchild wished 51 Bernard Street to be retained and contended that it was held not upon trust for sale but upon trust to vest it in them as the persons for the time being constituting the tenant for life thereof for the purposes of the Settled Land Act, 1925.

Vaisey, J., upheld their contention, holding that, as a matter of construction of the will, the testator intended the beneficiaries to enjoy his estate *in specie* and that when he referred to 'my property' he was thinking of his property as existing at the time of his death. His lordship further held that the rule in *Howe v. Earl of Dartmouth* could not any longer apply to leaseholds held for a term exceeding sixty years, since they were now authorized investments under the Settled Land Act, 1925, Section 73 (1) (xi), and the Law of Property Act, 1925, Section 28 (1); furthermore, in so far as the rule was based on an implied intention of the testator, he could find no foundation for such an intention. Vaisey, J., referred to the fact that the purchase of a long leasehold would not necessarily be proper in the case of all settlements; but pointed out that this point was not relevant in the case before him since the property concerned was part of the testator's residuary estate at his death.

Extent of Order for Possession

A short but important point was decided by Wynn-Parry, J., in *Norwich Union Life Insurance Society v. Preston* ([1957] 2 All E.R. 428). The sheriff's officer had executed a writ of possession by evicting the defendant mortgagor's wife and daughter from the mortgaged premises, but had declined to take steps to remove the mortgagor's furniture and effects which he had left there. The mortgagees applied for an order that the mortgagor should, within four days, remove these effects. Wynn-Parry, J., made an order accordingly, holding that it was essential to have regard to the common sense of the matter and that possession meant vacant possession: in so doing he applied *Cumberland Consolidated Holdings Ltd v. Ireland* ([1946] K.B. 264), where Lord Greene, M.R., had held that, subject to the rule *de minimis*, a vendor who left property of his own on the premises on completion could not be said to give vacant possession since by so doing he was claiming a right to use the premises for his own purposes, *videlicet*, as a place of deposit for his own goods, inconsistent with the right which the purchaser had on completion to undisturbed enjoyment.

Deceased's Estate Liable for Fine

H.M. Treasury v. Harris ([1957] 2 All E.R. 455) was an action brought by the plaintiffs, suing on behalf of the Crown pursuant to Section 17 (2) of the Crown Proceedings Act, 1947, against the administrators of the estate of a deceased felon to recover a fine of £1,000 which had been imposed upon the deceased.

The deceased had been sentenced to 'two years' imprisonment on each of four counts of receiving, the sentences to run concurrently, together with fines of £250 in respect of each of the four counts, with a liability to further terms of imprisonment in default of payment. The deceased died while serving the initial term of two years, and before any part of the fines had been paid or levied. It appeared that whether or not the personal representatives of a dead man, on whom a sentence involving the payment of a fine had been imposed, could be sued for the fine by the Crown, had never been before the Court before.

Lord Goddard, C.J., considered the nature of a fine and found that it was a monetary penalty due to the Crown which, when imposed, constituted a debt of record to the Crown. The fact that the deceased was dead and could no longer be imprisoned in default of payment of the fine did not, in his lordship's view, do away with the fine. It was desirable, not only for the Court to be able to ensure that a man should not benefit by keeping the result of his crime, but also that, if a man was dead, that his estate should not benefit by the proceeds of the crime. Accordingly, the plaintiffs were entitled to succeed.

Beneficiaries Difficult to Ascertain

The testator in *Re Eden, Ellis v. Crampton* ([1957] 2 All E.R. 430) directed his trustees to divide the 'remainder of the residue' of his estate in such shares or sums as they should in their absolute discretion decide among the persons who should at the date of the death of the testator's wife be employed by, or who should previously have been in the employment of, the testator's company, or in the service of the testator or of his wife. Following the death of the testator's wife certain interim distributions were made among persons who appeared to qualify as recipients under the will, but the plaintiff, the sole surviving trustee of the will, was then advised that, having regard to the terms of the will, he should obtain the directions of the Court before making any further distribution.

A trust for such members of a given class of objects as the trustee shall select is void for uncertainty, unless the whole range of objects eligible for selection is ascertained or capable of ascertainment, but

Wynn-Parry, J., pointed out that mere difficulty of ascertainment is not of itself fatal to the validity of a gift upon trust for members of a class: it was only when one reached a conclusion on the evidence that the gift was so vague, or the difficulty was so great that it must be treated as virtually incapable of resolution, that one was entitled to say that the gift was void for uncertainty.

Accordingly his lordship took the view that in considering the answer to the question before him he must review the evidence, not so much with a view to saying that it demonstrated that at the material date the whole range of objects eligible for selection was ascertained, but rather to seeing whether it demonstrated beyond the peradventure that it was impossible to ascertain the range of objects at that date. On the evidence before him the learned judge was not convinced that it would be impossible to ascertain the complete range of objects, though it might be difficult to do so, and therefore he held that the gift constituted a valid and effective trust.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Pestilential Profit'

SIR, - Amid the welter of argument and opinion that surrounds the subjects of profits and taxation, and between the advocacy of prudent provision for replacement costs on the one hand and praiseworthy attempts to avoid public misconception of the nature of 'profits' on the other, the fortuitous juxtaposition of two broad viewpoints in recent articles in your journal is rather interesting.

Mr S. J. McAdden (November 2nd issue) would have us educate the public to accept profit (or as he prefers to call it 'surplus') as necessary, firstly to pay heavy taxation, and secondly, to indemnify the proprietors of the business against erosion by inflation. Mr C. D. Hellyar (November 9th issue), referring to the need for adequate provision for replacement costs, says:

'important as it may be to demonstrate . . . profit which should not be distributed, it is even more important to press . . . for the deduction of these sums for . . . tax purposes'.

The plain fact of the matter is that politicians, professional advisers and commentators, and the general public alike are painstakingly slow to acknowledge the out-of-dateness of concepts once fundamentally sound but no longer tenable in present conditions: the time-honoured notion of taxation as an *appropriation* of profit still, apparently, persists in the most exalted circles, though it should have been abandoned twenty years ago, with the result that instead of recognizing taxation as an unavoidable business expense - a first charge on trading profits,

however calculated - orthodox accountancy demands that we should still use the word 'profit' today to describe something which is largely intangible and usually immeasurable by any intelligent standards.

Meanwhile, any attempt, whether individual or national, to outwit the effects of inflation, seems doomed to promote the very evils it seeks to avoid. At least, however, let us stop talking foolishly about 'record profits' and 'record turnover', when these are the natural and inevitable fruits of seemingly uncontrollable inflation which at the same time is eating away the real value of every penny each one of us possesses.

Yours faithfully,
W. P. STANLEY WOOD, A.C.A.

Rugby.

Encouraging the Small Investor

SIR, - Heaven protect the working man from any attempt to persuade him to invest his savings in company shares. Heaven forgive the misguided accountant who lends his support to such an attempt, for it can have very grave consequences for our profession.

It might be argued that there is nothing fundamentally wrong with the idea, as long as the working man is told about the risk involved. He could be informed that there is always an element of risk in buying ordinary shares; not that it is a flutter, like doing the pools, but still, it is not the same as taking a chance, like buying premium bonds. His shares may rise and fall in value, and not only within fairly close limits. They may become virtually unsaleable,

or he may be able to dispose of them with a profit. His return may be greater than he ever anticipated, or lower than he could have feared when he bought them. If the working man is told this, some may say, why should he not invest in equities?

No, investment counselling may not be a very complex business, but it does require adherence to certain rules. Those who wish to practise it should bear in mind that all investment must be related to the individual's personal and quite peculiar problems, but we can state categorically, that it would be wrong to advise a man with a few hundred pounds of savings to put them into equities, no matter how easy it were. Let him place them on deposit at a bank, and let the bank do its patriotic duty to industry.

Beware, for this is a trap. One part of the profession would like to win the worker's confidence, in order that he will not draw false conclusions from published company accounts, and now, it seems, another part would expose the worker to risks which he is not equipped to face. I, for one, should not like to have to face him, at a time when economic conditions had taken away both his living and his savings.

Yours faithfully,

London, SW10.

KENNETH S. MOST.

Directors' Expenses

SIR, - We are wondering whether other practitioners are experiencing the same difficulty as ourselves relating to the Inland Revenue practice of issuing assessments on directors including expenses reimbursed to them in respect of specific out-of-pocket expenses, without allowing any deduction for these expenses and without first asking for particulars of the expenses claimed.

We have had experience where such notices have been issued direct to the client who has not appreciated the significance of the figures shown on the form and, in consequence, has neglected to forward it to us for some time, with the result that the twenty-one days allowed for appeal has expired, and, when we have subsequently appealed, the Inland Revenue have resisted the claim on the grounds that notice had not been given within twenty-one days of issuing of the notice of assessment.

Whilst it is appreciated that these expenses should be included in the assessment, would not normal courtesy demand that where the form P.11.D. or other correspondence indicates that the expenses represent the reimbursement of specific items, the Inland Revenue should at least address a communication to the taxpayer, or his agent, asking for details of the expenses claimed, before issuing a notice of assessment, thus saving the unnecessary correspondence of appeal against the assessment, and also the possibility of no appeal being lodged within the appropriate time?

Yours faithfully,

London, W5.

FRANCIS KAYE & CO.

Institute Members' Impressive War Records

SIR, - In a few idle moments recently I made a casual look through the Institute's *Red Book* and roughly jotted the undernoted points which may be of interest.

Of those members of the Institute who served in the First and Second World Wars, and who were included in the 1957 edition, it may be said that their record was and is impressive, as shown by the figures of decorations awarded:

Victoria Cross	.. ..	2 (1 in each war)
Distinguished Service Order	25 (11 in 1939-45 war)	
Distinguished Service Cross	19 (all)	
Distinguished Flying Cross	61 (56)	
Military Cross	.. ..	183 (65)
Air Force Cross	.. ..	5 (all)
George Medal	.. ..	1 (1)
Military Medal	.. ..	19 (2)
Distinguished Conduct Medal	2 (2)	
Distinguished Flying Medal	10 (10)	
Distinguished Service Medal	3 (2)	
British Empire Medal	.. ..	4 (3)

In addition, many of the O.B.E.s and M.B.E.s listed may be military awards, and the number of members awarded the Territorial decoration is appreciable.

When one considers that a number who were given awards may now, for one reason or another, be excluded from the 1957 *Red Book*, the overall picture must be very impressive. In these circumstances would it not be possible to record in some way the contribution made by members of the Institute in an official history?

Yours faithfully,

Bancroft, N. Rhodesia.

P. A. SHERIDAN.

Revaluation

SIR, - Westland Aircraft Ltd announced recently the result of the group's revaluation of its fixed assets with the further intention of revaluing plant and machinery.

It is common practice to defer revaluation until a specific event arises, e.g. an issue of bonus shares or an amalgamation with another group. It would be interesting to learn from readers whether they would recommend the policy of continuous revaluation at quinquennial intervals so that the fixed assets were always expressed at current values. This may have the following advantages:

- (a) Insurance levels would be current.
- (b) The security for a bank overdraft would always be up to date.
- (c) Depreciation would be calculated on current values.

It is therefore surprising that revaluation is not more common.

Yours faithfully,

REVALUATION.

Taxation Cases

A full report of the cases summarized in this column will be published, with Notes on the judgments, in the 'Annotated Tax Cases'.

C.I.R. v. Wood Brothers (Birkenhead) Ltd

In the Court of Appeal – October 4th, 1957
(Before THE MASTER OF THE ROLLS (Lord EVERSHED),
Lord Justice PARKER and Lord Justice PEARCE)

Surtax – Undistributed income of company – Actual income – Whether including balancing allowance – Income Tax Act, 1952, Sections 245, 248, 253, 255, 279, 280, 292, 301, 323.

The company, which ceased trading in 1951, sold its plant and machinery and went into liquidation on April 16th, 1952. At that date the last made up accounts were those for the period ended April 30th, 1950. A balancing charge was made on the company in respect of the sale of its plant and machinery.

A direction was made under Sections 245 and 253 of the Income Tax Act, 1952, in respect of the undistributed income of the company, and in computing the amount of the actual income the Inland Revenue sought to include the amount of the balancing charge. The Special Commissioners decided that that was not an item to be included in computing the company's actual income.

Held (affirming the judgment of Mr Justice Harman), that the Special Commissioners' decision was correct.

Carson v. Cheyney's Executor

In the Court of Appeal – October 21st, 1957
(Before Lord Justice Jenkins, Lord Justice PARKER
and Lord Justice PEARCE)

Income tax – Author – Royalty payments – Royalties paid after death – Whether receipts of provision – Income Tax Act, 1952, Schedule D, Case II, Case III, Case VI.

At the date of the death of Mr Peter Cheyney there were four contracts in existence, pursuant to which royalties were being paid to him. Three of these contracts provided for him to write books for publishers, and the fourth contract provided for the exploitation in the French language of an already existing book. After the death of Mr Cheyney royalties arising under these contracts were paid to his executor.

The Inland Revenue contended that the sums representing these royalties were assessable under Case III or Case VI of Schedule D, and assessments were made on the respondent accordingly.

Held (affirming the judgment of Mr Justice Harman), that the respondent was not assessable in respect of the sums in question since they constituted receipts arising out of the deceased's professional activities.

For Students

AUDITING

New Audits

When a practitioner is invited to undertake a new audit, there is a sequence of procedure which he should adopt before attempting to draw up an audit programme or start on the actual work of auditing. This procedure may be tabulated as follows:

(1) Before accepting nomination as auditor the practitioner should ensure that he is in fact qualified to undertake the work (e.g. he must consider the requirements of the Companies Act, 1948, if the prospective client is a company). Assuming that he is so qualified, he should then ascertain whether there has been a previous accountant or auditor acting. If another practitioner has acted in recent years, an inquiry must be addressed to him with a view to ascertaining the circumstances in which the change of auditor was proposed.

(2) On receiving a favourable reply from any former accountant or auditor, the practitioner may then inform the prospective client of his agreement to being nominated.

(3) The client should inform the new auditor when any necessary formalities as to his appointment have been completed (e.g. resolution at a board meeting

or an annual general meeting). In notifying him of his appointment, the client should indicate the precise duties of the auditor (if these are not the conventional duties of a company auditor) and the auditor's remuneration should be specified, or the manner of its determination made clear (e.g. fee to be agreed with the board of directors).

(4) If the client does not specify these matters, but – as often occurs – merely passes a verbal message to the auditor, the auditor should write formally to the client, setting out the terms of his appointment as he understands them to be.

(5) If he is in any doubt of them, the auditor should then consult any relevant statutes (e.g. Companies Act) to acquaint himself with his statutory obligations as an auditor to the particular client. In the case of a sole trader or partnership, of course, there will be no statute.

(6) The auditor should call for and inspect any documents affecting the constitution of the business to be audited – e.g. memorandum and articles of association of a company, partnership agreement, trust deed, special Act of Parliament (for a Parliamentary company).

(7) The auditor should then satisfy himself as to the validity of his appointment – e.g. if appointed by

a company in general meeting in the place of a retiring auditor he should ensure that due notice of the proposal to appoint him has been given. The minute of the resolution appointing him should also be inspected.

(8) The next step should be for the auditor to obtain a clear general picture of the business concerned. This will include the nature of the trade, the staff employed, the accounting system, and any system of internal audit in operation. Concurrent with these inquiries, the auditor should obtain copies of earlier years' accounts, and any other documents he is likely to require (e.g. abstracts of directors' minutes relating to bank mandates etc.).

Notes will be made throughout as to the more important matters, and if considered necessary, a written statement may be obtained from the client confirming such matters as the financial records maintained, the duties of the various members of the staff, any restrictions as to their individual authority, and any particular matters affecting internal check or security (e.g. custody of keys).

(9) The auditor should then ascertain that the private ledger and other records (e.g. plant register) of the business are in accordance with the last balance sheet. Apart from ensuring that the books of account are in order as at the balance sheet date, this inspection will also enable the auditor to see the accounting system in operation.

(10) Having carried out all these matters, the new auditor may then prepare a draft audit programme for the new client. The programme should not be settled until the auditor has had some experience of auditing the particular concern, as it is likely that small points of detail or procedure will arise which were not apparent in his earlier inspection.

PARTNERSHIP LAW

Interim Distributions on Realization

When dissolution of a partnership takes place, it frequently occurs that realization of the assets is a protracted affair. Debtors may need time to pay and stock may be difficult to liquidate, whilst the liabilities to outside parties are usually capable of speedy settlement if sufficient cash is available.

The position is often reached when a balance of cash remains after payment of all outside creditors and of any loan accounts of the partners. The problem then arises as to the manner in which the balance of cash should be divided among the partners. Clearly, when the business has ceased, there is no point in leaving the cash balance in the firm's bank account, and differences of opinion may arise if a short-term investment is proposed. In any case, the partners may wish to have their due shares of this cash as soon as possible for their personal use.

If the capital accounts of the partners are in profit-sharing ratio there is no difficulty, and the available cash at any time may be divided among the partners in this ratio. In the examination hall, however, one usually finds that the capital accounts are not in this ratio.

The procedure which must then be adopted for an interim distribution is to value the remaining (unliquidated) assets at 'Nil', and to compute a notional figure of profit or loss on realization. This profit or loss, as the case may be, is then notionally credited or debited to the partners' capital accounts, and the

balances remaining on these accounts will then equal the available cash.

If a second interim distribution is to take place, a similar procedure is adopted, and from the balances shown on this calculation will be deducted the sums paid to each partner on the first or earlier distributions.

On the final realization taking place, the books of the partnership are closed, and as earlier payments will have been recorded in the respective capital accounts, the final cash balance will equal the final balances on the capital accounts after the total profit or loss on realization has been posted thereto.

By utilizing this method, one can be quite confident that whatever the sum may be which unliquidated assets at any time may produce, no partner will receive an overpayment of cash; consequently, no partner can be adversely affected if interim distributions of cash are made on this basis.

(A worked example of an interim distribution on realization will appear in a subsequent series of 'For Students' notes.)

ACCOUNTANCY

Average Due Date

The average due date is the date upon which a single payment could be made in satisfaction of several interest-bearing debts each due on different dates. By the use of an average due date, calculations as to interest due on such payments are greatly simplified, and its use is frequently encountered in such cases as partnerships, joint ventures and credit trading.

It is computed by multiplying each amount by the number of days to the agreed day of settlement: the product is then divided by the total of the sums in question, thus giving the average due date. Interest on the total amount is then allowed for the period from the average due date to settlement day.

Example

A partner withdraws the following amounts for his personal use:

January 10th	..	..	..	£150
February 18th	..	..	..	£ 70
May 25th	..	..	..	£200
August 21st	..	..	..	£135
September 16th	..	..	..	£ 14
November 5th	..	..	..	£ 85
December 20th	..	..	..	£116

The firm's accounts are drawn up to December 31st annually, and interest is charged on drawings at 5 per cent.

Show the interest charge arising on the above drawings, using the average due date method.

Solution	£150 × 355 =	£37,275
	70 × 316 =	22,120
	200 × 220 =	44,000
	135 × 132 =	17,820
	14 × 106 =	1,484
	85 × 56 =	4,760
	116 × 11 =	1,276
	<u>£770</u>	<u>£128,735</u>

$$£128,735 \div £770 = 167 \text{ days.}$$

Interest at 5 per cent on £770 for 167 days =

$$\frac{5}{100} \times 770 \times \frac{167}{365} = £17 \text{ 12s } 3d$$

The above method may in practice be simplified still further by the use of an interest table for days, or for decimal multipliers. These aids are not, however, permitted in the examination hall.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship at the Council Meeting held on November 6th, 1957, who completed their Fellowship before November 19th, 1957.

Associates elected Fellows

Bailey, Edward William Cecil Worner, M.C.; 1951, A.C.A.; (†Hill, Vellacott & Co), Law Courts Chambers, 33-34 Chancery Lane, London, WC2; for other towns see (†Hill, Vellacott & Co) and (†Hill, Vellacott & Bailey).
 Bennett, John; 1952, A.C.A.; (William E. Little & Co), Midland Bank Chambers, Ross-on-Wye, and at Sidcup.
 Brazier, Barry Raymond; 1952, A.C.A.; 'Cartref', 7 Jeremy Road, Goldthorn Park, Wolverhampton.
 Brown, Louis Charles John; 1952, A.C.A.; (Gerald Brown & Co), Walmer House, 288 Regent Street, London, W1.
 Bunney, George; 1951, A.C.A.; (Wood, Drew & Co), Chancery House, 53-64 Chancery Lane, London, WC2.
 Durman, Lawrence Frank; 1934, A.C.A.; (Viney, Price & Goodyear), Empire House, St Martin's-le-Grand, London, EC1, and 22 Ryder Street, St James's, London, SW1.
 Durrant, Owen Victor; 1952, A.C.A.; (V. B. Durrant & Son), 44 Prince of Wales Road, Norwich.
 Evans, David Llewelyn, B.A.; 1951, A.C.A.; (Spicer & Pegler), 19 Fenchurch Street, London, EC3.
 Flather, Anthony Victor; 1948, A.C.A.; (†Peat, Marwick, Mitchell & Co), District Bank Chambers, Market Street, Bradford, and at Cleckheaton, Harrogate, Leeds and York.
 Gallaway, William Fleming, B.A.(COM.); 1934, A.C.A.; (Hartley Turner & Co), Lloyds House, 18 Lloyd Street, Albert Square, Manchester, 2.
 Holt, Walter Benno Paul, D.PHIL.; 1949, A.C.A.; (Thornton & Thornton), Nuffield House, 41-46 Piccadilly, London, W1.
 Howell-Jones, Raymond George; 1948, A.C.A.; (Annan, Dexter & Co), 21 Ironmonger Lane, London, EC2.
 Jones, Aled Evans; 1952, A.C.A.; (Rushton, Osborne & Co), Bank Chambers, 1 John Street, Bedford Row, London, WC1.
 Jones, Arthur; 1950, A.C.A.; (Mitchell & Bunting), Cardigan Chambers, 27 Lord Street, Liverpool, 2.
 Kellie, Henry Alan; 1927, A.C.A.; (Alan Kellie & Co), 'The Old Rectory', Itchenor, Chichester, Sussex.
 Little, William Edward; 1938, A.C.A.; (William E. Little & Co), Midland Bank Chambers, Ross-on-Wye, and at Sidcup.
 McCarthy, James; 1949, A.C.A.; (John A. Porter & Co), 9 Oxford Street, Manchester, 1, and at Liverpool.
 Matthews, Vernon; 1949, A.C.A.; (Hartley Turner & Son), Lloyds House, 18 Lloyd Street, Albert Square, Manchester, 2.
 Rigby, Arthur Stanley; 1952, A.C.A.; (John Goulding & Co), 4 Southport Road, Chorley, Lancs.
 Shaw, William George; 1951, A.C.A.; (W. H. Shaw & Sons), Market Place, Dewsbury.
 Townley, James Rorie; 1932, A.C.A.; (Wilmot Welch & Co), 41 Edleston Road, Crewe, and at Liverpool.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

Firms not marked † or * are composed wholly of members of the Institute.

Tuffin, John Allon; 1947, A.C.A.; 5 Bartholomews, Brighton, 1; also at 28 Ship Street, Brighton, 1 (*White & Son).

Turner, James Brian Weston; 1950, A.C.A.; (*Eacott, Standing & Co), 8 Sheet Street, Windsor.

Turquand, Colin Frank; 1949, A.C.A.; (*Turquand, Turquand & Co), 2 Wentworth Mansions, Keats Close, London, NW3.

Tyrer, Joseph David; 1948, A.C.A.; (*John Fairhurst & Tyrer), 15 Bridgeman Terrace, Wigan.

Wilson, Arthur Brian; 1951, A.C.A.; (Viney, Price & Goodyear), Empire House, St Martin's-le-Grand, London, EC1, and 22 Ryder Street, St James's, London, SW1.

The following applicants who were admitted to membership at the Council Meeting held on September 4th, 1957, have completed their membership.

(Not in Practice)

Ackford, Brian Edward, 24 Pemros Road, St Budeaux, Plymouth.

Aitken, Ronald William, Flat 193, 55 Park Lane, London, W1.

Arnold, Michael John, 60 Foxley Lane, Purley, Surrey.

Atchison, Derek James, 25 Footscray Lane, Sidcup, Kent.
 Austin, Edward David, with A. J. Lovatt (A. J. Lovatt & Co), Cowgate Chambers, Cowgate, Peterborough.

Baxendale, Harold, with W. A. Turner & Co, Martins Bank Chambers, 25 Sunbridge Road, Bradford.

Brown, John David, 'Cedarholm', East Oakwood, Hexham, Northumberland.

Candy, John Philip Dominic, 42 Sugden Road, London, SW11.

Carter, William George Key, The Old Forge, Offham, West Malling, Kent.

Croll, Michael John, Flat 2, 57A Barlow Moor Road, Didsbury, Manchester, 20.

Dennett, (Miss) Heather Janet Martin, with Leech, Evans & Co, Darlaston House, Warwick Road, Coventry.

Doyle, Anthony Basil Christopher, B.COM., 'Budworth', Dawstone Road, Gayton, Wirral, Cheshire.

Fowler, John David, 130 Norbury Crescent, Norbury, London, SW16.

Frankland, Timothy Cecil, with †Binder, Hamlyn & Co, 121 Queen Victoria Street, London, EC4.

George, David William, 'Dean View', Dean Terrace, Liskeard, Cornwall.

Gething, John Angus Blair, with Carter, Chaloner & Kearns, 76 Cross Street, Manchester, 2.

Hall, Eric Norman, with Impey, Cudworth & Co, 48 Calthorpe Road, Edgbaston, Birmingham, 15.

Hanson, James Donald, 4 Arlington Crescent, Pye Nest Road, Halifax.

Harris, Peter Woodstock, with †Alan, Charlesworth & Co, 17 St Helen's Place, Bishopsgate, London, EC3.

Hart, Ivor Malcolm, with Baker, Todman & Co, Canada House, Norfolk Street, Strand, London, WC2.

Haslam, Frank Jackson, with F. Haslam, 9 Bold Street, Warrington.

Hatton, Roger Wallis, with Clement Keys & Son, 63 Temple Row, Birmingham, 2.

Hewitt, Jonathan Audley Hughes, South Lodge, Chertsey, Surrey.

Hills, John Wakefield, B.A., with Annan, Dexter & Co, 21 Ironmonger Lane, London, EC2.

Holland, William Robert, 2 Clarence Place, Newport, Barnstaple, Devon.

Holmes, Brian Scott, Brook House, Saling, near Braintree, Essex.

- Holmes, Keith Mowbray, B.COM., 118 Bingley Road, Nab Wood, Shipley, Yorkshire.
- Horne, Robert Edwin, with †Alexander B. Neil & Co, 49 London Wall, London, EC2.
- Jaeger, John Michael Lytton, B.A., 12 Kenilworth Avenue, Harrogate.
- Jones, Brian Herbert, 360 North Circular Road, Palmer's Green, London, N13.
- Lapish, James Ian Godfrey, M.A., with J. B. Lapish & Son, Albion Walk Chambers, Albion Walk, Leeds, 1.
- Lawrence, Peter March, with Impey, Cudworth & Co, 48 Calthorpe Road, Edgbaston, Birmingham, 15.
- Lewis, Leonard, with †Hogg, Bullimore & Co, 91 Park Street, Park Lane, London, W1.
- Liversidge, Jack, 71 Tarnside Drive, Leeds, 14.
- Mason, Anthony John, 'White Stacks', Broomcroft Road, Felpham, Bognor Regis, Sussex.
- Matthews, John Lovell, 48 Selly Wick Road, Selly Park, Birmingham, 29.
- Mattison, John, 35 Downsway, Great Bookham, Leatherhead, Surrey.
- Messere, Derek Robin, with Blease & Sons, Clifford's Inn, London, EC4.
- Mundy, Anthony David, with †Evans, Fripp, Deed & Co, Farleigh House, Lawrence Lane, Cheapside, London, EC2.
- Murphy, Derek, 20 Beeston Avenue, Woodlands Park, Timperley, Altrincham, Cheshire.
- Newman, Frank Richard, with S. E. Newman (S. E. Newman & Co), 408 Strand, London, WC2.
- Owen, Edward William, 29 Hammelton Road, Bromley, Kent.
- Pelton, David, with Goldwyn Bros. & Co, 62-64 Temple Chambers, Temple Avenue, London, EC4.
- Phillips, Simon Francis, 104 Bwlch Road, Fairwater, Cardiff.
- Pooley, Michael Lafone, 26 Wood Waye, Oxhey, Watford, Herts.
- Pullen, John Hedley Roberts, 19 Boundary Road, Wallington, Surrey.
- Renshall, James Michael, M.A., with Lonsdale & Marsh, 26 Exchange Street East, Liverpool, 2.
- Robotham, John Michael, 'Cranford', Allestree, Derby.
- Rodericks, John Vivian, with Wade, Harrison & Co, 4 Tokenhouse Buildings, King's Arms Yard, Moorgate, London, EC2.
- Rumney, William Locker, 'Aldersyde', Lea Road, Lea, near Preston.
- Sankey, John, 3 Longton Avenue, Withington, Manchester, 20.
- Stuck, Alan Graham, 18 Mansfield Road, Reading.
- Thomas, Peter Melville, 144 Malpas Road, Newport, Mon.
- Wildblood, Fred Roger John, M.A., Holmleigh, Station Road, Stone, Staffs.
- Willcock, Joseph, with Dryden, Dorrington & Co, Prince's Chambers, 26 Pall Mall, Manchester, 2.
- Wiley, Robert Kenneth, 10 Central Park Avenue, Plymouth.
- Wilson, John Ventress, with †C. F. Middleton & Co, 73 Basinghall Street, London, EC2.

(Not in England or Wales)

- Dancer, Francis Brian, c/o McDonald, Currie & Co, 50 Place D'Armes, Montreal, 1, P.Q., Canada.
- Gisborne, Michael Guy, with Deloitte, Plender, Griffiths, Annan & Co, Tanganyika House, Third Street (P.O. Box 267), Salisbury, S. Rhodesia.
- Hoskins, Geoffrey Mark, with †Barton, Mayhew & Co, 6 Square de l'Opéra, Paris, 9.
- Kassim, Ameerally Rahemtulla, c/o Small & Co Ltd, P.O. Box 23, Kisumu, Kenya.
- Read, John Penwarden, *The Sunnyside Hotel*, Port Elizabeth, South Africa.
- Watt, Peter Michael, with *Cooper Bros. & Co, 80 King Street West, Toronto, Ontario, Canada.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

Special and ordinary meetings of the Council of The Institute of Chartered Accountants in Ireland were held in Belfast on Thursday, October 24th.

Attendance

The President, Mr G. F. Klingner, was in the chair, and there were also present:

Messrs James Walker, *Vice-President* H. E. A. Addy, John Bacon, A. S. Boyd, G. A. P. Bryan, Patrick Butler, G. E. Cameron, A. E. Dawson, J. F. Dempsey, James Graham, N. V. Hogan, R. E. McClure, R. P. F. Olden, H. W. Robinson and D. McC. Watson, with the Secretary and the Joint Secretary and Treasurer in attendance. Apologies for absence were submitted from Messrs Frank Cleland and M. M. Connor.

Death

The recent death of Robert Orr McClenahan, F.C.A., Belfast, was reported and noted with regret.

Fellowship

The following Associates were elected to Fellowship: Hugh McHoul, Dublin; Desmond Michael O'Dwyer, Dublin.

Associateship in Practice

The following members were admitted to practice: George William Coleman, Dublin; Dennis Patrick Joseph Whelan, Dublin.

Membership

Francis Joseph Stanislaus Cruess-Callaghan was admitted to membership.

Preliminary Examination - Exemption

One application for exemption from the Preliminary examination under the provisions of bye-law 96 was granted.

Integration

It was reported that the amendments to the bye-laws, which had been passed at a special meeting of the Institute held on May 30th, 1957, had been allowed by Order of the Governor and Privy Council of Northern Ireland and by Order of the Government of the Republic of Ireland, and various matters arising under the Scheme of Integration were considered.

Commission on Income Taxation

A memorandum prepared by the taxation committee was considered, and was approved for submission to the Commission on Income Taxation.

Seventh International Congress

The President gave a report on the Seventh International Congress of Accountants held in Amsterdam

from September 9th-13th, 1957, and it was unanimously resolved to send the Institute's congratulations to the Netherlands Institute of Accountants and to the Association of University-Trained Accountants.

Disciplinary Committee - Findings and Decisions

The Council received a report of the findings and decisions of the Disciplinary Committee at a meeting held on October 24th, 1957.

The Committee found proved formal complaints

preferred by the Investigation Committee against six members to the effect that each of these members had failed to pay his subscription to the Institute for the year 1957 within the period prescribed by the by-laws.

The Committee ordered that Alfred Edward Arthur MacKenzie, A.C.A., of Dublin, and Liam Joseph Thunder, A.C.A., of Waterford, be excluded from membership of the Institute, and that the remaining four members be suspended from membership.

DINNER IN DUBLIN

Mr G. F. Klingner, F.C.A., of Dublin, President of The Institute of Chartered Accountants in Ireland, presided at a dinner of the Institute held in Dublin on Thursday, November 7th. Among the members and guests present were Dr James Ryan, T.D., Minister for Finance; Councillor James Carroll, T.D., the Rt. Hon. the Lord Mayor of Dublin; Mr R. P. Rice, Chairman, the Revenue Commissioners; Mr E. A. Lister, Chief Inspector of Taxes, Northern Ireland; Mr J. T. Dowling, C.A., President, The Institute of Chartered Accountants of Scotland; Mr W. L. Barrows, J.P., F.C.A., Vice-President, The Institute of Chartered Accountants in England and Wales; Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A.; Mr James Walker, C.B.E., F.C.A., Vice-President of the Irish Institute; Mr Alan S. MacIver, M.C., B.A., Secretary, The Institute of Chartered Accountants in England and Wales, and

Messrs Mervyn Bell, F.S.A.A.; T. A. Byrne, F.A.C.C.A. (President, The Association of Certified and Corporate Accountants, Irish Branch); P. A. Cowman, F.I.I.S., A.C.M.M.A., (President, The Insurance Institute of Ireland).

Messrs J. H. Douglas (Vice-President, Dublin Chamber of Commerce); N. S. Gaffney (President, The Incorporated Laxo Society of Ireland); D. A. Hegarty (Vice-Chairman, the Irish Management Institute); H. W. Kennedy (President, The Institute of Bankers in Ireland).

Miss B. K. Lawlor, B.A. (Secretary/Librarian, Belfast Society of Chartered Accountants); Messrs John Love, F.S.A.A.; M. F. MacCormac, F.A.C.C.A. (Hon. Secretary, The Association of Certified and Corporate Accountants, Irish Branch); E. H. V. McDougall (Secretary, The Institute of Chartered Accountants of Scotland).

Messrs Raymond O'Neill, S.C.; J. M. Sutton (Vice-President, Cork Chamber of Commerce); J. C. Tonge, F.C.W.A. (President, The Institute of Cost and Works Accountants, Dublin and District Branch); O. J. Toole (President, Dublin Stock Exchange).

'Prosperity to Ireland'

After the toast of 'Ireland' had been honoured, Mr Gaffney proposed the toast of 'Prosperity to Ireland'. He suggested that a reduction in the present heavy rate of taxation would lead to an improvement in the state of the country's economy. At a time when increased production and more and yet more hard work were required, the business or professional man was deprived of the reward of his labours because of excessive taxation. Dr Ryan replied to the toast.

The toast of 'The Institute of Chartered Accountants in Ireland' was proposed by Mr Dowling. In a delightful speech he spoke of his Irish parentage and said that this was probably the first occasion on which an Irish President of the Scottish Institute had had the honour of proposing this toast.

Important Chapter

Referring to integration, Mr Dowling said that the Irish Institute, like the English Institute and his own, was beginning a most important chapter in its history, strengthened by amalgamation with The Society of Incorporated Accountants. He continued:

'As is well known a feature of the integration scheme is the declared intention of setting up a Joint Committee of the English, Irish and Scottish Institutes. We of the Scottish Institute attach great importance to this part of the merger and I hope you do also.'

Mr Dowling then spoke of the merger, in 1951, of the three chartered bodies in Scotland which had been tested during the past six years and had proved a success. From the start, members had been encouraged to be loyal to the unified Institute and they had responded splendidly. This merger, he said, had undoubtedly strengthened the position in Scotland, and he was confident that integration would be in the best interests of all three Institutes.

In the course of his reply, Mr Klingner referred to the happy relationship which existed between the Irish Institute and its sister Institutes in Scotland and England. The ready assistance and generous advice of those bodies were greatly appreciated by the Irish Institute.

1,400 Members

Speaking of integration he said:

'We on our part welcome this development. When it was recommended by the Council to our members it was done so unanimously, in the confident belief that it would strengthen the profession in Ireland by bringing together a great number of people with the same objects and ideals.'

'In 1936 the number of members of this Institute was 375; it increased to over 600 ten years ago, and is now 1,050. We hope that integration will raise the figure to rather more than 1,400. Now that to me means that we shall have an organization capable of doing many things which a small body found difficult.'

In conclusion, Mr Klingner said that he shared Mr Dowling's hopes for the future of the proposed Joint Standing Committee, which he felt would be of great benefit to the Irish Institute.

The toast of 'Our Guests' was proposed by Mr Walker, and the Lord Mayor of Dublin and Mr Barrows responded. Sir Richard Yeabsley also spoke.

An informal toast to Mr Klingner was proposed by Mr Patrick Butler, F.C.A., a Past-President of the Institute. In his reply, Mr Klingner referred to the unfortunate absence through illness of his predecessor in office, Mr Frank Cleland, who had played such an important part in negotiating the Irish scheme of integration.

NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS

Annual Dinner in Newcastle upon Tyne

There were 250 members and guests at the annual dinner of the Northern Society of Chartered Accountants held at the Old Assembly Rooms, Newcastle upon Tyne, on Friday, November 15th. The dinner was presided over by Mr J. M. S. Coates, O.B.E., F.C.A., President of the Northern Society, who, together with Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, received the company.

Among those present were Alderman J. W. Telford, Lord Mayor of Newcastle; Sir Walter J. Drummond, M.INST.C.E., M.I.MECH.E., Chairman of the Governors, The Royal Victoria Infirmary, Newcastle; Mr N. Harper, Barrister-at-Law, Recorder of Bradford, and

Dr J. C. Arthur, M.Sc., M.R.C.S. (*President, North of England Branch, British Medical Association*); Mr W. Barnes, F.R.I.C.S. (*Chairman, Northumberland and Durham Branch, Royal Institution of Chartered Surveyors*); The Hon. Denis Berry, T.D. (*Managing Director, Newcastle Chronicle and Journal Ltd*); Messrs E. W. Bourn, F.A.I., M.R.S.H. (*Chairman, Northumberland and Durham Branch, Chartered Auctioneers' and Estate Agents' Institute*); A. Boyd, F.B.A.A. (*President, Newcastle upon Tyne and District Society of Incorporated Accountants*); D. E. Braithwaite, T.D., B.A. (*President, Newcastle upon Tyne Incorporated Law Society*).

Mr R. M. Chapman, T.D., D.L., M.A., J.P., F.C.A.; Judge John Charlesworth (*His Honour the Chancellor, County Palatine of Durham*); Messrs D. J. Croucher (*Northern Chartered Accountants Students' Society*); F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); J. Hall (*Chairman, Newcastle Local Centre, Institute of Bankers*); P. D. Irons, B.COM., A.C.A. (*President, South Eastern Society of Chartered Accountants*).

Messrs A. S. MacIver, M.C., B.A. (*Secretary of the Institute*); W. S. Olleson, T.D., F.C.I.S., F.A.C.C.A. (*President, Northern Counties District Society, Association of Certified and Corporate Accountants*); N. T. O'Reilly, F.C.A. (*Chairman, Cumberland Branch, Northern Society of Chartered Accountants*); W. F. Partridge (*Northern Chartered Accountants Students' Society*); J. S. A. Peffers, A.S.A.A. (*Secretary, Newcastle upon Tyne and District Society of Incorporated Accountants*).

Messrs J. Shields, F.C.W.A. (*President, North East Coast Branch, Institute of Cost and Works Accountants*); J. Stark, F.C.I.S. (*President, North East Coast Association of Chartered Secretaries*); C. Stewart (*H.M. Principal Inspector of Taxes*); C. C. Taylor, J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); E. C. Wallis, F.C.I.I. (*President, Insurance Institute of Newcastle upon Tyne*); Arthur E. Webb (*Editor, 'The Accountant'*); F. Wilcock, F.I.M.T.A., A.S.A.A. (*City Treasurer, Newcastle upon Tyne*); E. K. Wright, M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*).

Partners in Industry

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir Walter Drummond said that engineers like himself welcomed accountants as partners in industry. In his part of the world, or in any other, it would be quite impossible to run industry without the co-operation of the accountants.

Commenting on the integration scheme, Sir Walter

said that he was sure that the new association would be of great advantage to both partners. It was quite certain, he said, that one professional body could talk with much greater authority than a multiplicity of organizations and, further, that one organization could safeguard the integrity and standards of a profession very much better than if the responsibility were shared.

Continuing, Sir Walter said that people who were trying to get things done nowadays, involving the spending of money and the obtaining of Treasury grants, were being frustrated by the enormous difficulty they had through the seemingly endless checking that went on. The final result was that the job was much later in its fruition and often cost more. He added that anything that the accountancy profession could do to improve the position so that the vast amount of paper work now involved could be reduced, would be of enormous benefit and would put the people who were trying to get on with the job eternally in the debt of the accountants.

Who Pays?

Responding to the toast, Mr Lawson said that it gave him great pleasure to see the President and honorary secretary of the Incorporated Accountants' North of England District Society among the guests at the dinner. There might be, he remarked, a little doubt as to whether, legally, there was now a North of England Society of Incorporated Accountants; if that were so, he said amid laughter, it was even more doubtful whether there was in fact a President and an honorary secretary.

But, he added, it seems to me that the only point at issue is whether or not these two gentlemen should pay for their dinner. (*Laughter.*)

Mr Lawson emphasized the need to attract candidates of the right calibre to the profession, the prospects for which, he said, were better today than ever.

Proposing the toast of 'The Guests', Mr R. M. Chapman said that in the convivial atmosphere of a dinner, they hoped that their acquaintances would become their clients and that their clients would become their friends. He then made an appeal for members of the Society to continue and increase their work for the Territorial Army. He said that the Northern Society had always been very great supporters of the Territorial Army, and he reminded the company that National Service men were no longer being posted to Territorial Army units which had, therefore, to rely entirely on volunteers. He urged members, if young and fit enough, to join up—for it was a very fine form of public service—and to try and persuade young men and women on their staffs to give their services.

Responding for the guests, Mr Norman Harper said that, unlike Mr Chapman, he was not sure whether he wanted his friends to be his clients. He gave a humorous account of the various situations with which a barrister was faced in his day-to-day work in the Courts.

DINNER IN DARLINGTON

North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants

The eighth annual dinner of the North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants, was held at *The Imperial Hotel*, Darlington, on Friday, November 15th. The company of 114 members and guests were received by the Chairman of the Branch, Mr C. G. Sparrow, F.C.A., and Sir Thomas Robson, M.B.E., M.A., F.C.A., a Past-President of the Institute.

Among those present were:

Messrs W. M. Allen, B.A. (*an Assistant Secretary of the Institute*); R. H. Anderson, F.C.W.A. (*President, Institute of Cost and Works Accountants, Middlesbrough and District Branch*); G. Tarn Bainbridge, F.R.I.C.S., F.A.I. (*Chairman, Chartered Auctioneers' and Estate Agents' Institute, South Durham and North Yorkshire Sub-Branch*); T. D. R. Bensted, F.C.A., F.S.A.A. (*Vice-President, Incorporated Accountants' North of England District Society*); A. S. Bowes, D.B.J., F.R.I.C.S. (*Past-President, North Yorkshire and South Durham Area, Royal Institute of Chartered Surveyors*); C. W. Boyce, C.B.E., F.C.A. (*a Past-President of the Institute*).

Messrs E. G. Fairburn, (*President, Tees-side and South West Durham Chamber of Commerce*); C. A. Hinks; C. D. Humphreys, A.C.A.; A. L. Ingman, B.Sc., M.Sc. (*H.M. Inspector of Taxes, 1st District, Middlesbrough*); A. Learmouth, A.C.I.I. (*President, Insurance Institute of Middlesbrough*); G. D. Paterson, M.A., F.C.A. (*Hon. Secretary, Leeds, Bradford and District Society of Chartered Accountants*).

Messrs D. Steele, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); E. W. Stonehouse (*President, Durham and North Yorkshire Law Society*); E. Duncan Taylor, F.C.A. (*a member of the Council of the Institute*); J. A. H. Walmsley (*Chairman, Institute of Bankers, Middlesbrough and District*); V. Walton, F.C.A. (*a member of the Council of the Institute*); R. L. Wishlade, A.C.I.S. (*Chairman, Chartered Institute of Secretaries, Tees-side and District Branch*).

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr C. A. Hinks, a Darlington solicitor, who said that his first word must be one of congratulation to the profession upon the successful outcome of the integration scheme.

'Devotion to Income Tax'

Expressing his admiration for the profession from experience which he had gained in more than thirty years of practice, Mr Hinks said that the older he grew the more respect he had for accountants. He added:

'The medical profession is united in its devotion to the patient; the clerical profession is united in its devotion to things spiritual; the Army to the State and country, and the accountants are united in their patient devotion to income tax. (*Laughter.*)

'It has been my privilege to work very closely with accountants for many years,' went on Mr Hinks. 'I have heard complaints by members of my profession that accountants are gradually taking over work which was formerly done by lawyers. I agree that there is not the least foundation for that. Most lawyers recognize that the scope and complexity of law has so increased that some assistance, however small and however misguided, is essential if one is to retain one's sanity.' (*Laughter.*)

On a more serious note, Mr Hinks said there was no need to speak of the immense services that accountants had rendered to the community, and the presence

of the distinguished guests reminded him of the important contribution they had made to the life of the nation. Sir Thomas Robson had conducted many inquiries in the past on various committees, and he was sure that he or other eminent members of the profession, could not make a more helpful contribution to the situation that we were in at the moment.

Responding to the toast, Sir Thomas Robson said that he was honoured to be at the dinner in place of the President, who was attending another function of the Institute further north, and the President sent them his good wishes.

Referring to integration, Sir Thomas said:

'This is indeed one of the most important events which has ever occurred in the history of the profession. I want to say publicly that we on the Council extend the warmest of welcomes to all those who, as a result of the scheme, will be joining the Institute's membership in the next few months, and to all article clerks.

'Above all, we look forward to the opportunities the amalgamation will provide towards a better service for the public.'

So far as the future of the enlarged Institute was concerned, said Sir Thomas, they intended to lift its work up to a new plane of endeavour and make it stand higher in the community than ever before.

Administration Tasks of Integration

Referring to the great task which had been set, Sir Thomas said that the Council looked to the officers and committee members to help them in the work that lay ahead. Integration would present them with tremendous administrative tasks, but given patience and forbearance, it was hoped to break the back of the task by the late spring of next year. He added: 'I urge you to be as kind as you can to the secretary of the Institute, and not to inflict on him more correspondence than is essential at the present time.'

Sir Thomas said that in Darlington they might think themselves rather remote from the Council of the Institute, but they should never feel that because the Institute was anxious to do its best to serve them.

Continuing, he said that one occasionally heard of members who refused to play their part in the education of article clerks, and the inculcation in them of right principles of conduct, but they forgot what they themselves had got out of the profession, and failed to realize that they had an obligation to put back something by helping younger men to follow in their footsteps.

The toast of 'The Guests' was proposed by Mr C. D. Humphreys. Mr Humphreys paid a tribute to the Branch's 'parent body', the Leeds, Bradford and District Society, and said that they had been a great source of strength.

Mr G. Tarn Bainbridge, responded to the toast, and in conclusion the chairman, Mr Sparrow, said that on behalf of the Branch, he once again wished to express their thanks to the honorary secretary, Mr C. H. W. Sansom, F.C.A.

In Parliament

CHEQUES ACT: RECEIPTS

Sir W. ANSTRUTHER-GRAY asked the Chancellor of the Exchequer whether his attention has been drawn to the confusion with regard to receipting bills which has arisen following the Cheques Act; and whether he will clarify the position.

Mr P. THORNEYCROFT: Section 3 of the Cheques Act, 1957, provides in effect that a paid unendorsed cheque is prima facie evidence of the receipt by the payee of the amount for which it is drawn. This puts paid unendorsed cheques in the same position as paid endorsed cheques; in no other respect has the law relating to receipts been changed.

Sir J. DUNCAN asked the Chancellor of the Exchequer if he is aware that up to now receipted vouchers have had to be produced in support of maintenance claims, claims under Section 314 of the Income Tax Act, 1952, and other similar claims, and that in view of the passing into law of the Cheques Act this is no longer possible; and if he will make a comprehensive statement on the procedure to be adopted in the future, and arrange for this to be circulated to all those who may be concerned.

Mr P. THORNEYCROFT: The Inland Revenue will accept an unendorsed paid cheque together with the unreceipted accounts or invoice; but nothing in the Cheques Act alters a person's right to require a duly stamped receipt for a payment of £2 or over.

Sir J. DUNCAN: Does this mean that if an unendorsed cheque and a bill, which bears no evidence of payment on it are brought together, that will be accepted as evidence of payment by the Inland Revenue?

Mr THORNEYCROFT: The Inland Revenue will accept an unendorsed cheque with the invoice as evidence of payment.

Lieut.-Col. BROMLEY-DAVENPORT asked the Chancellor of the Exchequer why cheques, pay orders or vouchers in respect of payments by Government departments to private individuals do not carry 2d stamps; and whether, in view of the passage of the Cheques Act, he will arrange for these to be regarded as receipted if endorsed without the further addition of a 2d stamp.

Mr P. THORNEYCROFT: They are exempt from cheque stamp duty and in some cases, notably for payments to pensioners, from receipt stamp duty where they embody a form of receipt. I am circulating in the *Official Report* extracts from a circular I have issued on this subject to departments.

Following is the information:

Treasury Reference H.F. 338/466/01

D.A.O. 4/57

CHEQUES ACT, 1957

Cheques embodying a form of receipt

The practice of Departments generally is to require a receipt to be given on the back of cheques even when this receipt does not link the payment with the relevant transaction. Under the provisions of the new Act this practice is unnecessary and should not be adhered to after the coming into force of the Act except where the signature of the payee is required for a specific purpose,

e.g. as a formal discharge of an obligation of a Department, or as evidence of life as in the case of pensioners.

Payable Orders

Section 3 of the Act does not cover payable orders and similar instruments used by Government Departments. The banks are aware that these payable instruments will still have to be signed by the payee.

The question of whether the principle of no endorsement should be applied to payable orders will have to be examined at some future date when sufficient experience of the working of the Act has accumulated.

Mr JOHN HALL asked the Chancellor of the Exchequer if he is aware that relying on the provisions of Section 3 of the Cheques Act, 1957, the practice of giving receipts is dying out; and what is his estimate of the amount of revenue which will be lost as a result.

Mr P. THORNEYCROFT: No precise estimate can be made.

Hansard, Nov. 12th, 1957. Oral Answers. Col. 762.

Mr IRMONGER asked the Secretary to the Treasury if he will take steps to inform the public that the Stamp Act, 1891, remains in force notwithstanding the coming into force of the Cheques Act, 1957; and that a person who pays a sum of £2 or over by cheque or otherwise retains his right under the Stamp Act to a duly stamped receipt, and that a payee who refuses a request for such a receipt is liable to a fine of £10 under Section 103 of that Act.

Mr POWELL: The position is as stated by the hon. Member. No doubt this question and answer, and my right hon. friend the Chancellor of the Exchequer's replies on November 12th to my hon. friends the Members for Berwick and East Lothian (Sir W. Anstruther-Gray) and for South Angus (Sir J. Duncan) will draw attention to the facts.

Hansard, Nov. 13th, 1957. Written Answers. Col. 59.

Schedule A Tax

Dr JOHNSON asked the Chancellor of the Exchequer what was the total amount collected for Schedule A income tax from owner-occupiers of houses in the year ended April 1952; and what is the estimate of cost in the same year in collecting such tax.

Mr P. THORNEYCROFT: The net yield of income tax on owner-occupied houses in the financial year 1951-52 is estimated at about £25 million. The cost of collecting this tax is part of the general cost of administering the Revenue and cannot be separately estimated.

Hansard, Nov. 13th, 1957. Written Answers. Col. 59.

Overseas Interest, Profit and Dividends: Dollar Area

Mr RIPPON asked the Chancellor of the Exchequer, of the £360 million earned by the United Kingdom from overseas interest, profits and dividends in the year ended June 30th, 1957, how much came from the dollar area.

Mr BIRCH: £78 million.

Hansard, Nov. 14th, 1957. Written Answers. Col. 76.

Notes and Notices

PERSONAL

MESSRS BOOTH, ANDERSON & Co, Chartered Accountants, of 2/3 Norfolk Street, London, WC2, and at Newbury, announce with regret the death of Mr C. B. CHRISTIE, C.A. He and his wife lost their lives in the recent air accident on the evening of Friday, November 15th. The practice will be continued in Newbury by Mr M. D. BOOTH, F.C.A., and Mr W. J. BARBER, C.A., and in London by Mr J. W. SKELSEY, M.C., F.C.A., and Mr R. B. DRUMMOND, A.C.A.

PROFESSIONAL NOTES

Mr Thomas George Mason, F.C.A., has been appointed a director of Monument Securities Ltd.

Mr G. N. Raine, A.C.A., has been elected a director of Antwerp Waterworks Co Ltd.

Mr L. C. Musgrave, F.A.C.C.A., A.C.W.A., A.C.I.S., has been appointed general manager (marine) of Esso Petroleum Co Ltd.

Mr George Russell Howell, A.C.W.A., chief accountant of Alvis Ltd, has been elected to the board of that company.

Mr George Dawson, A.S.A.A., assistant secretary of Brown, Muff & Co Ltd, has been appointed secretary of the company.

CHARTERED ACCOUNTANT ADOPTED AS LIBERAL CANDIDATE

Mr Hugh Womersley, F.C.A., of Doncaster, has been adopted as prospective Liberal candidate for Bradford South. He takes the place of Mr Arthur Ellis who contested the division at the last election - when the seat was held by Labour - and who has resigned for business reasons.

THE LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

MANAGEMENT ACCOUNTING COURSE

The Leeds, Bradford and District Society of Chartered Accountants is holding a residential course on management accounting this week-end at Harrogate. The course began yesterday (Friday) when Mr Brian A. Maynard, M.A., F.C.A., A.C.W.A., spoke on 'Management accounting for the medium-sized firm from the point of view of the installation accountant'.

This morning, after a session for group reports on the first paper, Mr C. J. Peyton, A.C.A., will speak on 'Work study and its relationship to management accounting'. After discussion in groups and a further session for group reports, the day's programme ends with a paper on 'Standard costs in practice and the presentation of control information to management', by Mr R. Richmond Mann, C.A.

The course, which is being held in the Harrogate Corporation Municipal Buildings, concludes on Sunday

morning with a further series of discussions. In all, there are eighty-nine attending, including members of district societies in London, Bristol, Sheffield and Hull. Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, is also attending for two of the days.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

LONDON DISCUSSION GROUP

Mr E. B. Neame, A.C.A., of the London Stock Exchange, will address a meeting of the London Discussion Group of the Scottish Institute, on the subject of 'A stock-broker's interpretation of company accounts', at 6.15 p.m. next Tuesday. The meeting will be held in the Small Hall, Bishopsgate Institute, 230 Bishopsgate, EC2 (near Liverpool Street Station), and not in the Oak Hall of The Institute of Chartered Accountants in England and Wales, as originally announced.

INSTITUTE OF INTERNAL AUDITORS

PROPOSAL FOR A MANCHESTER CHAPTER

All those who are responsible in a managerial or supervisory capacity for the internal auditing activities within their organization are invited to attend a meeting which will be held at 7.30 p.m. next Wednesday at the Chartered Accountants' Hall, 46 Fountain Street, Manchester, 2, for the purpose of considering whether there is sufficient support for the formation of a Manchester Chapter of the Institute of Internal Auditors. At present the only Chapter of the Institute in the United Kingdom is the London Chapter.

Mr W. J. Smith, C.A., the Regional Vice-President of the Institute, and Mr J. O. Davies, F.C.A., F.C.W.A., the President of the London Chapter, will attend the meeting in order to explain the function of the Institute and the requirements to be met before a new Chapter can be formed.

CENTRAL LONDON DISCUSSION GROUP

At a recent meeting of the Central London Discussion Group of the London and District Society of Chartered Accountants, the following committee was appointed:

Chairman: Mr E. Smith, A.C.A.

Hon. Secretary: Mr S. J. Dent, A.C.A., 71 Great Russell Street, London, WC1.

Hon. Treasurer: Mr R. G. Dowse, A.C.A.

Other members: Mr C. W. Archer, A.C.A., and Mr H. Nelson, T.D., A.C.A.

The effects of the Cheques Act, 1957, were discussed at the meeting and Mr J. C. Fraser, A.C.A., introduced a discussion on 'The presentation of accounts to workers'.

Meetings will be held during this session at *The Lamb and Flag*, Rose Street, WC2, on the third Wednesday of each month.

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SOUTHEND-ON-SEA CHARTERED ACCOUNTANTS' GROUP ANNUAL DINNER

The tenth annual Christmas dinner of the Southend-on-Sea Chartered Accountants' Group will be held in conjunction with the Southend Branch of the London Chartered Accountants' Society at *The Queens Hotel*, Westcliff-on-Sea, on Thursday, December 5th, at 6.30 for 7 p.m. Lounge dress will be worn and the cost will be 25s each for members and guests or 20s for article clerks. Tickets can be obtained from the Hon. Secretary, Mr A. A. Stewart, A.C.A., Flat 3, 1 Clifton Terrace, Southend-on-Sea, Essex. Telephone: Southend 45903.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

WORCESTER SUB-BRANCH

The Worcester sub-branch of the Birmingham and District Branch of The Institute of Cost and Works Accountants held a meeting on November 1st, at *The Star Hotel*, when Mr D. C. Edis, F.C.W.A., a former technical officer of the Institute, and Mr C. E. Sutton, A.S.A.A., F.C.W.A., a director of The Metal Box Co Ltd, spoke on 'Costing as a career'. The chair was taken by Mr J. Lancaster, F.C.I.S., secretary of Mining Engineering Co Ltd.

The local secretary of the Worcester sub-branch is Mr A. F. Wilkes, A.C.W.A., of 35 Timberdine Avenue, Worcester, who announced at the close of the meeting that a programme had been arranged for the current winter session. He invited members and registered students of the Institute, and any persons interested in costing and management accountancy, who would like to attend these meetings, to write to him at the above address.

CHOOSING A CAREER

The third edition of *Choosing a Career* was published by the National Union of Students this week.¹ The purpose of the publication is to bring into closer contact employers and their future graduate employees.

In an article on 'Salaries, security and status', graduates are told that starting salaries for the commercial executive are between £550 and £700, while in the Civil Service administration grade they may expect £635 per annum. The accountant and the barrister, says the report,

'must mark time on very modest means before their experience is rich enough to push them into the higher income scales. . . . The accountant can be reasonably sure that he will not be desperately struggling at 35 to make ends meet'.

SALES MANAGEMENT

A one-week residential course on sales management which will review up-to-date techniques in the management of a sales organization is being held at the Sundridge Park Management Centre from March 2nd

¹ *Choosing a Career*. National Union of Students, 3 Endsleigh Street, London, WC1, 2s 6d post free.

to March 7th, 1958, and also from June 29th to July 4th, 1958.

The scope of the course is such that it is equally applicable to both large and small organizations and the principles and techniques which will be discussed have wide application and cover the selling of capital goods to industry as well as the selling of consumer goods to the retail trade.

The course is considered to be most suitable for managing directors, sales directors, sales managers and also for those specially under training for such appointments. The inclusive residential fee for the course is 50 guineas. Further information may be obtained from the Director, Sundridge Park Management Centre, Bromley, Kent.

THE SHEFFIELD AND DISTRICT CHARTERED ACCOUNTANT STUDENTS' SOCIETY

The winter session of The Sheffield and District Chartered Accountant Students' Society continues on November 27th with a senior Society lecture, to which students are invited, on 'Considerations of a banker in granting overdraft facilities', by Mr H. G. Hodder.

The interesting programme of lectures to be given during the session includes:

December 6th: 'Company amalgamations and reorganization', by Mr P. Cardwell.

January 7th, 1958: 'The use of settlements to avoid taxation', by Mr G. S. A. Wheatcroft, M.A.

January 10th: 'Budgetary control', by Mr F. C. de Paula, T.D., A.C.A.

February 7th, 4 p.m.-5.30 p.m.: 'Group accounts'; *6 p.m.-7.30 p.m.*: 'Auditing', by Mr V. S. Hockley, B.COM., C.A.

February 25th: 'Stock exchange transactions', by Mr H. C. Nicholson, F.C.A.

March 7th: 'The design of accounts', by Mr David D. Rae Smith, F.C.A.

March 18th: 'Taxation losses', by Mr K. S. Carmichael, A.C.A.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of the London Students' Society will be held during next week:

Monday: Visit to Martins Bank (limited number).

5.30 p.m., at Winchester House, Old Broad Street.

EC2: 'Settlements and their uses, especially for estate duty', by Mr B. G. Rose, F.C.A. *Chairman*: Mr P. F. Carpenter, F.C.A. (Member of the Council of the Institute).

Tuesday, 6 p.m.: Film and demonstration of punched-card accounting (limited number).

Wednesday: Visit to Barclays Bank (limited number).

5.30 p.m., at the Institute: Joint debate with the Solicitors' Articled Clerks' Society on the motion 'Words tell fewer lies than figures'.

Saturday, 10 a.m., at Bedford: Lecture on 'Some reflections on the auditing papers', and 'Internal check and internal audit', by Mr W. T. Dent, F.C.A.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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LOCAL GOVERNMENT REFORM

WHILE the Government are satisfied that there is no convincing case for radically reshaping the existing form of local government in England and Wales, the need is recognized for overhauling the system and making the improvements necessary to bring it up to date. At the same time, as regards local government finance, the existing system of raising money by rating assessments supplemented by Exchequer grants has been approved after exhaustive examination, but here, too, changes are regarded as necessary. Hence the Local Government Bill, the text of which has been recently published, and also, as we noted in a 'Weekly Note' last week, the appointment of a Royal Commission to examine local government in the London area, which for the time being is excluded from the Bill's proposals about area and status.

The Bill has three main objects: to increase the financial independence of local authorities by strengthening the rating system and reducing their dependence on percentage grants, to provide machinery and procedure for reviewing the structure of local government to meet modern conditions, and to give to the larger county district councils a greater share of responsibility for the health, welfare, and education services.

Perhaps the most striking step in the realm of finance is the abolition of a number of Exchequer grants for specific services (education, health, child care, and fire). It is proposed that as from April 1st, 1959, county and county borough councils shall receive a new general grant absorbing these separate grants, which amount in the aggregate to some £300 million annually.

The new 'general' grant will be fixed from time to time by orders, subject to affirmative resolutions of both Houses of Parliament, the first one being for the two years to April 1961. The distribution of the grant will be governed by a formula which takes account of the population, number of school children, old people, population density, and other factors, each of them weighted as provided for in the order. The general grant will, of course, give a local authority more freedom and more opportunity to effect economies; on the other hand, if it does not maintain reasonable standards in any of the services covered by the grant, there will be power to reduce it. Regulations can be made prescribing these reasonable standards.

How all this will work out in relation to, for example, schools, remains to be seen. It seems inevitable that some authorities will be more education-minded than others, and will give greater facilities.

Equalization grants, which are paid to authorities whose

resources are below the average, are to be re-named 'rate-deficiency' grants. From April 1959, they will be paid also to county district councils and metropolitan borough councils, instead of only to county and county borough councils as at present.

Compared with the sweeping changes in local government taxation which have been advocated, and which might have been introduced, the changes actually provided for in the Bill are little more than marginal. The rating system is to be retained, the only alteration of any magnitude is the reduction of industrial derating from three-quarters to one-half, i.e. the rates to be paid on industrial and freight transport properties are to be doubled, but will still enjoy a 50 per cent differential in their favour as compared, for instance, with professional offices. Rates on business premises are, of course, allowable as a deduction for income tax and profits tax purposes, and the estimated loss to industry of £30 million a year (based on 1956-57) will be reduced by about a half when tax repercussions are taken into account. In general, however, the tax reduction will come a year later. Since the Exchequer is going to incur a loss in taxation of £15 million it will cut down the Exchequer grants, not by the full £15 million, but by £10 million. The net gain to local authorities will be of the order of £10 million a year.

The Bill also makes changes in the formulae for assessing and distributing among authorities the rateable values of gas boards. Instead of making payments in lieu of rates, the electricity industry will be rated on a basis similar to that for gas. Gas and electricity showrooms will be separately and directly assessed for rates.

Although there will be many more gainers than losers among local authorities from the changes in the Exchequer grants and rating systems, there are transitional provisions to ensure that the financial changes come gradually. The whole of the losses will be made good in 1959-60, and 90 per cent of them in 1960-61.

Apart from finance, the Bill deals also with the question of the areas and the status of local authorities. It provides for two local government commissions (one for England and one for Wales) to review the organization of local government outside Greater London. The two new commissions will consider the areas of counties and

of county boroughs, and claims for extensions or for changes of status. The Bill defines five provincial conurbations, which it calls 'special review areas'. These are Tyneside, West Yorkshire, South-east Lancashire, Merseyside and the West Midlands. In relation to these five the English local government commission will consider also the county districts and the distribution of local government functions. As regards England and Wales generally, the commissions will have power to propose changes in the area of a county or a county borough, the creation or abolition of a county or county borough, and the conversion of a county borough into a non-county borough. In the special review areas the English commission will be able to propose also the alteration, amalgamation, creation or abolition of county districts. This commission will consider, too, the appropriateness of the existing distribution of local government functions, and will be at liberty to propose the constitution of an administrative county with a distribution of functions (as between county council and county district councils) different from the normal arrangement. They may also propose joint boards for particular functions. Both commissions will be bound to consult local authorities and other bodies concerned, and then to circulate draft proposals for local comment, before making final proposals. Any objections made to the proposals will have to be considered by the Minister, normally after local inquiry, before he makes orders to give effect to them.

To enable local authorities to settle down to the new pattern which the Bill proposes, it provides that no local authority will be able to present a private Bill for a change in its own area or status for fifteen years.

Clause 50 of the Bill gives to trustees powers under Section 1 of the Trustees Act, 1925, to invest money in the security of the mortgages and the securities created by

'any local authority, any body all the members of which are members of local authorities, any river board, any river purification board, the Conservators of the River Thames, and the Lee Conservancy Catchment Board'.

At present, only those authorities which have obtained permission to issue local housing bonds have trustee status for their mortgages, and these are not necessarily the largest or most prosperous authorities.

TAX CHARTER FOR TRUST BENEFICIARIES

THE widespread practice of rearranging the beneficial interests under a trust in order to avoid taxation, principally estate duty, received a severe check by the House of Lords' decision in *Chapman v. Chapman* (33 A.T.C. 84) that the Court had no jurisdiction to sanction a change which did not fall within Section 57 of the Trustee Act, 1925, or Section 64 of the Settled Land Act, 1925, unless in the course of settling a genuine dispute. The *ratio decidendi* was not that it was improper for a Court to lend its aid to tax mitigation, but simply that the Court had no jurisdiction. As noted briefly in a 'Weekly Note' in our last issue, the sixth report¹ of the Law Reform Committee now recommends that the Court ought to have that jurisdiction.

Initially the recommended change would consist of a new section inserted into the Law of Property Act, 1925, on the lines of Section 169, a now obsolete section which permitted the Court to bind a married woman notwithstanding the fact that her property was subject to a restraint on anticipation. At the same time, Section 171, which permits the settlement of the property of a lunatic or defective, would be amended to permit modifications of settlements already made. Eventually all the powers referred to above might be combined in one comprehensive provision.

One common reason for wanting to alter a trust is the need of one of the beneficiaries for a lump sum, as a matter of urgency. But the report devotes much more space to the topic of tax avoidance through the medium of altering trusts. It doubts the suggestion of LORD MORTON, in *Chapman v. Chapman*, that the proposed jurisdiction might lead the Courts to embark on an 'undignified game of chess' with the Legislature. It says that the Court already has jurisdiction to sanction any disposition of a lunatic's property which, if of sound mind and well advised, he would make himself. In support of this it cites *C.W.M.* ([1951] 2 K.B. 714) but it is fair to point out that the scheme in that case brought immediate benefits to the patient in the shape of a capital sum and the discontinuance of a life insurance premium, although it was mentioned

that estate duty would be eventually reduced if the patient also survived five years.

The report says, too, that after a divorce the Court can sanction variations in the marriage settlement 'which are designed to prevent the trust fund being diminished by taxes or death duties (see *Thomson v. Thomson* [1954] P. 384)' (33 A.T.C. 241). In that case the husband had made several settlements on the wife and children and subsequently obtained a divorce decree against the wife and co-respondent. Perhaps not unnaturally he applied to have all the settlements varied by extinguishing the wife's interest as though she were dead. It was admitted that one of the objects was to reduce the amount of tax that would otherwise be payable on the settlement income. Acceding to this application, DAVIES, J., asked: 'Is this Court to hesitate to exercise the power by reason of the fact that one of the results . . . will be a reduction in the amount of tax . . . ?' and he answered it in the negative.

Again, the report quotes the view of the Royal Commission on the Taxation of Profits and Income that there should be no general principle forbidding a man to order his affairs so as to reduce his tax liability and it says the same view has been taken in the Court of Appeal in *Lord Hylton's Settlement* ([1954] 1 W.L.R. 1055), but taxation is not mentioned in the report of that case, the Court contenting itself with approving a compromise between life-tenant and remainderman.

It is perhaps fair to say, therefore, that the approval of the Courts for tax avoidance schemes is a little overstated in the report. However, the report itself carries very considerable weight, being signed by, *inter alia*, three Lord Justices and two High Court Judges. The report does not give *carte blanche* for all legal tax avoidance schemes; only those to which any judge of the Chancery Division would give his sanction: schemes which 'as a citizen and a taxpayer he would think it right to enter into with regard to his own property'. Schemes 'of questionable character' or 'morally objectionable', although legal, would not be permitted. This proviso leaves the reader wondering where precisely the Law Reform Committee draws the line, and where individual judges would draw it in particular cases.

¹ Cmd. 310, H.M.S.O., 8d net.

BUSINESS TENANCIES — I

Tenancies Within the Landlord and Tenant Act, 1954

by SPENCER G. MAURICE

SUBSECTION (1) of Section 23 of the Landlord and Tenant Act, 1954, provides that:

'Subject to the provisions of this Act, [Part II] of this Act applies to any tenancy where the property comprised in the tenancy is or includes premises which are occupied by the tenant and are so occupied for the purposes of a business carried on by him or for those and other purposes.'

The object of this article is to review some of the cases in which the somewhat complicated provisions of Part II have received the scrutiny of the High Court or the Court of Appeal, and no attempt will be made to deal with Part II as a whole. It must be remembered that, by virtue of Section 63 (2), proceedings are only started in the High Court when the rateable value of the holding is in excess of £500, and that where the rateable value is £500 or less, the County Court is the proper tribunal. It follows that it is comparatively rare to find that the High Court is the Court of first instance; but there have been several appeals to the Court of Appeal from the County Court.

Tenancies not within Part II

Tenancies of business premises to which Part II does not apply are listed in Section 43. It is also necessary in this connection to have regard to Section 69 (1), where a tenancy is defined for the purposes of the Act as 'a tenancy created . . . by a tenancy agreement'.

In *Wheeler v. Mercer* ([1957], A.C. 416; [1956] 3 All E.R. 631), the House of Lords (reversing the decision of the judge of the Tunbridge Wells County Court and of the Court of Appeal ([1956], 1 Q.B. 274; [1955], 3 All E.R. 455), held that the Act did not extend to a tenancy at will. Their lordships agreed that Section 69 (1) did not plainly exclude such a tenancy from the ambit of the Act: on the other hand, a tenancy at will was not necessarily brought within the Act, and in reaching their decision they were, in particular, guided by Section 25 and subsection (3) of Section 43.

Subsection (3) of Section 25 deals with that class of tenancy which apart from the Act could have been brought to an end by notice to quit given by the landlord and enacts what the date of termination in such cases may be. Subsection

(4) deals with 'any other tenancy' and provides that, in the case of any other tenancy, a notice under the section shall not specify a date of termination earlier than the date on which apart from Part II of the Act the tenancy would have come to an end by effluxion of time. A tenancy at will neither is determined by a notice to quit nor comes to an end by effluxion of time. Since the opening words of subsection (4) show that all tenancies covered by Part II are covered by subsections (3) and (4), tenancies at will are outside it.

Tenancies not exceeding Three Months

Section 43 (3) provides:

'This part of this Act does not apply to a tenancy granted for a term certain not exceeding three months unless —

- (a) the tenancy contains provisions for renewing the term or for extending it beyond three months from its beginning; or
- (b) the tenant has been in occupation for a period which, together with any period during which any predecessor in the carrying on of the business carried on by the tenant was in occupation, exceeds six months.'

The effect of this subsection was dealt with by Viscount Simonds. For the appellant landlord it had been argued that it was anomalous to exclude from the protection of the Act tenancies granted for a term certain, unless certain conditions were satisfied, but to bring within its protection tenancies at will, the duration of which might be for a far shorter period, while the argument for the respondent tenant was that it was no greater anomaly than that which was provided by a weekly tenancy which had been extended from week to week by a tenant holding over, and would, it was claimed, be within the protection of the Act. What in fact were the rights of a weekly tenant holding over, Lord Simonds did not think it desirable to discuss, but he said that in Section 43 (3) he found language which was not appropriate to the case of a tenancy at will, and which he would expect to find extended or amplified if such a tenancy were intended to be protected.

Subsection (2) of Section 23 provides that in Part II of the Act the expression 'business' includes a trade, profession or employment and includes any activity carried on by a body of

persons, whether corporate or unincorporate, whereas the Act of 1927 excluded premises used for any profession and those used for the business of subletting as residential flats. In *Bagettes Ltd v. G. P. Estates Co Ltd* ([1956], Ch. 290; [1956], 1 All E.R. 729), the tenants argued that the business of subletting as residential flats was within the protection of the Act of 1954. The Court of Appeal, affirming the decision of Wynn-Parry, J. ([1955], Ch. 75; [1955], 3 All E.R. 451), accepted the contention that the premises in question were used by the tenant for purposes which were 'the purposes of a business carried on by' it within the meaning of subsection (1) of Section 23, but nevertheless held that the tenant was not entitled to a new tenancy.

Their lordships' decision was reached in the light of the true construction of subsections (1), (2) and (3) of Section 23. Subsections (1) and (2) have been referred to above. Subsection (3) provides:

'In the following provisions of this Part of this Act the expression "the holding", in relation to a tenancy to which this Part of this Act applies, means the property comprised in the tenancy, there being excluded any part thereof which is occupied neither by the tenant nor by a person employed by the tenant and so employed for the purposes of a business by reason of which the tenancy is one to which this Part of this Act applies.'

Section 32 limits the power of the Court to grant a new tenancy under Section 29 to the holding as defined in Section 23 (3) and nothing more, except where there is an agreement to the contrary between the parties, or the landlord requires (under Section 32 (2)) that the whole of the property comprised in the current tenancy (where that includes property other than the holding as so defined) should be included in the new tenancy.

Occupation the Criterion

Jenkins, L.J., who delivered the leading judgment in the Court of Appeal, pointed out that whereas the criterion for protection under the Act of 1927 was use for business purposes, under the Act of 1954 it is occupation for business purposes. This explained the absence from Section 23 (2) of the Act of 1954 of any express exclusion of the subletting of flats from the category of trade or business: such a use of property was not within the protection of the Act because from the very fact that it was let the tenant would not be in occupation of it. Considering the case before the Court, where part of the premises had been sublet and part retained by the tenant in

his own occupation for the purpose of providing services for the subtenants, his lordship said that under the Act of 1954 the tenant could, rightly, as his lordship thought, say that the subletting was a business within the meaning of Section 23 and that the purposes for which he occupied the remainder of the premises were purposes of a business carried on by him within the meaning of that section.

Tenancy must extend to the whole of the Premises

But although so far he satisfied Section 23 his claims could be maintained only so long as he continued as tenant of the entirety of the premises, whether occupied by him or sublet, and once the flats which it was his business to sublet were excluded from his tenancy the remaining parts of the premises, though still in his occupation, were no longer occupied by him for the purposes of any business.

'I think', said his lordship (at [1956], Ch. 301; [1956], 1 All E.R. 734), 'it is implicit in [the provisions of Part II of the Act], and in particular Sections 23 and 32, that the business for the purposes of which a tenant occupies premises of which he claims a new tenancy must not be of such a character that it is necessarily brought to an end by the very process of the ascertainment of the holding and the ordering and granting of a new tenancy of the holding as ascertained, with the result that the tenant is presented with a holding which, though occupied by him, is not so occupied for the purposes of any business whatsoever.'

It followed, therefore, that the tenancy in question was not a tenancy to which Part II of the Act applied. But Jenkins, L.J., was careful to emphasize that his view of the case was closely related to its own particular facts, and pointed out that there might be cases in which mesne landlords of flat premises retained and occupied parts of their premises for business purposes of a kind capable of surviving the cesser of their interest in the flats themselves, and cases where property companies occupied offices for the purpose of carrying on the business of managing the various properties from time to time held by them: to such cases different considerations applied, but his lordship declined to say anything about them.

Court's Discretion in fixing Length of Tenancy

Section 33 provides that where the Court makes an order for the grant of a new tenancy, that new tenancy shall be such tenancy as may be agreed between the landlord and the tenant, or, in

default of agreement, such as may be determined by the Court to be reasonable in all the circumstances, being, if it is a tenancy for a term of years certain, a tenancy for a term not exceeding fourteen years. It is to begin on the coming to an end of the current tenancy. *Upsons Ltd v. E. Robins Ltd* ([1956] 1 Q.B. 131; [1955] 3 All E.R. 348), an appeal to the Court of Appeal from the judge of the Southport County Court, is a very valuable authority on the Court's discretion in fixing the length of the new tenancy which it grants.

Denning, L.J. (as he then was) (with whom Hodson and Morris, L.JJ., agreed), took the view that the scope of Section 33 was wide, and that the County Court judge, in granting a lease of one year only, did not take anything into account improperly, so that the tenant's appeal, asking that seven years be substituted for one year, should be dismissed. The County Court judge had taken into account the fact that the landlord required the premises for its own purposes (though it was precluded from opposing a grant of a new tenancy under paragraph (g) of subsection (1) of Section 30, because it was affected by subsection (2) of that section¹), and that the landlord might soon have to leave its present premises. The judge had considered the greater hardship of the case, including the fact that the tenant had a chain of some 250 shops, whereas the landlord had only one, and the loss of one would be a comparatively small matter for the tenant while the landlord would suffer much more.

Restriction of the Tenant's Business

Section 35 provides:

'The terms of a tenancy granted by order of the Court under this Part of this Act (other than terms as to the duration thereof and as to the rent payable thereunder) shall be such as may be agreed between the landlord and the tenant or as, in default of such agreement, may be determined by the Court; and in determining those terms the Court shall have regard to the terms of the current tenancy and to all relevant circumstances.'

In *Gold v. Brighton Corporation* ([1956], 1 W.L.R. 1291; [1956], 3 All E.R. 442), the question at issue was whether the Court, in the exercise of its discretion under Section 35, may so determine the terms of a tenancy as to restrict the business carried on by the tenant. The tenant's business was selling new and second-hand furs and ladies' wear. On the tenant apply-

ing for a new tenancy under the Act, the landlord made a counter-proposal, saying that under the terms of the new lease the premises should be used for business as a furrier and for selling ladies' new clothes, but not for any second-hand clothes, and the judge of the Brighton County Court ordered a restrictive clause to that effect to be inserted in the new tenancy. The landlord alleged that to permit the premises to be used for the sale of second-hand clothes would lower the tone of the street, but failed to support this allegation with evidence.

Appeal Allowed

The tenant appealed to the Court of Appeal, where Denning, L.J. (with whom Birkett and Parker, L.JJ., agreed), pointed out that Section 23 (1) provided that the Act applied to premises which were occupied by the tenant 'for the purposes of a business carried on by him'. Inasmuch as the tenant was to be protected in respect of her business, the terms of the new tenancy should be such as to enable her to carry it on as it was, and not prevent her from carrying on an important part of it. At any event, if there was to be any restriction, it ought to be supported by cogent evidence, and there was no such evidence before the Court. Accordingly, the appeal was allowed.

Under the terms of her original lease the tenant in *Gold v. Brighton Corporation* could carry on virtually any kind of business. Before the Court of Appeal it was suggested that she should be similarly unrestricted by the terms of the new tenancy. Denning, L.J., said that he did not think that this would be right, taking the view that the object of the Act was to protect a tenant in respect of his business, and not to put a new saleable asset into his hands. His lordship felt that if in the years to come a change of user was reasonable, the landlord would consent to it.

It is, of course, quite possible that a tenant who seeks a new tenancy under the Act may at the very time of his application be planning a change in or expansion of his business which would have been permissible under the original tenancy. It is not clear what would be the attitude of the Court in such circumstances, but it is suggested that an Order which did not permit the tenant to go ahead with his plans would hardly suffice to protect him in respect of his business and that, in such a case, the Court would make an Order in terms wide enough to permit the change or expansion planned.

(To be continued.)

¹ Section 30 will be discussed in a later part of this article.

ACCOUNTANTS OF THE EAST INDIA COMPANY

by R. ROBERT, A.C.I.S.

OF all the great chartered trading corporations none has played such a significant role in our national affairs as the East India Company, interest in which will be revived this year by three important anniversaries. It was in 1657 that Oliver Cromwell renewed the company's charter after a three-years' break in its monopoly of the East India trade; a hundred years later, in 1757, Clive won the Battle of Plassey, which not only decided whether French or British influence was to predominate, but virtually placed the sub-continent in charge of East India Company officials, and finally, in 1857, with the outbreak of the Indian Mutiny, the long career of the Company of Merchants of London Trading into East India came, for all practical purposes, to an end.

The saga is a long one, compact with high drama – magnificent material for fresh treatment at the hands of historians and novelists – and even the lives of minor officials, tied to hum-drum tasks in the seclusion of East India House, seem invested with a mantle of romantic splendour.

Only two paid officers were employed by the company at the time of its formation in Elizabethan days, one being a secretary and the other a beadle. Later a book-keeper was added to the staff, and it was this position which eventually developed into something better – worthy of the designation 'accountant'. Auditors, originally, were chosen from among the shareholders, but after 1621 a paid official enjoying this title makes his appearance.

'Generall Accomptant' Appointed

Shortly after Cromwell's charter of 1657 we come across the name of a Mr Jeremy Sambrooke, who was appointed to 'keep the Company's bookes in such way and method as shall be thought fit by Mr Governor', at a salary of £200 a year. This, for the 'Generall Accomptant' of so great a corporation as the East India Company was not a great sum, even in those days, and it was presumably by way of compensation that Sambrooke was allowed, for a time at least, to levy a fee whenever the adventurers transferred stock from one to another.

The story of this accountant is not a happy one. Sambrooke had joined the Company in 1608, shortly after its incorporation, and he

acted as chief accountant from 1657 to 1669, always performing his duties satisfactorily. But some tragedy must have haunted his thoughts for the melancholy truth is that, on July 1st, 1669, Sambrooke hanged himself, and the secretary was under the obligation of recording in the Court of Minutes that his estate had been forfeited. Suicide, it should be recalled, involved the confiscation of all the deceased's goods and chattels. Nor did social disapproval of the desperate deed end there. The hapless chief accountant, in compliance with the barbaric custom of those days, was buried at a lonely cross-roads – with a stake driven through his body!

A very different story is that of Mr 'Auditor' Hoole who, in 1797, was described by a distinguished colleague as 'the greatest boast and ornament of the India House', and who served the company faithfully for forty years. The son of a Moorfield's watchmaker, Hoole was born in 1727 and received a good education. Too short-sighted to succeed as a watchmaker, his father obtained for him a clerkship in the accountant's office of the East India Company, where he had to serve an apprenticeship, of five years' duration, without salary.

Government Inquiry

For nineteen years Hoole worked as a clerk, 'one of a breed marked by plaited-cambric ruffles, a neat wig, snuff-coloured suit, and sober looks'. Only at the age of 36 was he transferred to the office of his friend, Oldmixon, who was auditor of the Indian accounts. In 1770, when Oldmixon was promoted, Hoole stepped into his shoes, and held the position of auditor at £500 a year for six years. Shortly after his appointment he broke a kneecap, and then had to bear with two Parliamentary committees, sent to investigate the Company's affairs. Endless facts, figures, and reports had to be produced, and the whole affair so worried Hoole that he fell ill. Even then he was granted little peace, for the inquisitors pursued him into the sick-room with their questions. A most harassing experience while it lasted.

Upon the whole, however, Hoole's professional career was uneventful. He lived in a fine house adjoining St James's Park, and Dr Johnson, the

'Great Cham of Literature', visited him there regularly. Auditor Hoole had himself a strong literary bent and found plenty of time to indulge it, despite the pressure of official duties. He was a good Italian scholar, and his translations of Tasso's *Jerusalem Delivered*, and Ariosto's *Orlando Furioso* achieved such popularity as to call for several reprints. Three of his tragedies reached the Covent Garden stage.

His example seems to have been followed by others of the East India House staff. James Cobb, secretary of the Company from 1814 to 1818, was the author of several successful plays; and Thomas Love Peacock, who became head of the Examiner's Department in 1836, achieved great popularity as a novelist. Destined for more enduring fame was an essay writer: Mr Charles Lamb – of the chief accountant's office.

Neither Tidy nor Accurate

A scholar of Christ's Hospital, Lamb joined the East India Company in 1792, when he was 17 years of age. His education, as he himself admitted, was not of the kind best suited to a commercial career. According to one of his colleagues, he was neither a tidy nor an accurate accountant, and he talked too much when in the office. Years later, in 1823, Lamb was to write: 'I think I lose £100 a year owing solely to my want of neatness in making up accounts' – but this may have been mere self-depreciation. Lamb was an excessively modest man, even his jokes were usually at his own expense.

For three austere years he served the East India Company as an apprentice, receiving no regular remuneration beyond an annual gratuity of £30, supplemented by occasional overtime earnings. Only as time went on did conditions gradually become more comfortable: at last he worked no more than six hours a day ('coming late and going early'). A month's holiday every year and many small privileges combined to make his lot a tolerable one. His salary rose to a maximum of £730 and, though he had an invalid sister to support, this was ample for a bachelor who, indeed, drank a little more than was good for him, but found his chief pleasure in books.

Needless to say, there were times when business responsibilities weighed heavily; when he was kept in the office until ten, or even eleven o'clock at night. He had, among other duties, to attend to the tea sales, to keep an eye on the indigo, drugs, and piece-goods stocks; to audit the warehouse-keeper's accounts, make out warrants, and record deposits paid at the sales.

Thomas de Quincey has left an amusing account

of the office in which Lamb spent his working life. It was large, if not airy. Six 'quill-driving gentlemen' sat behind a high railing, 'all too profoundly immersed in oriental studies' to notice the presence of a stranger. Lamb sat in an aisle, perched on a very high stool, and submerged in 'lofty Leadenhall speculations', but quickly thawed when De Quincey, famous for his *Confessions of an English Opium Eater*, presented his letter of introduction.

Legendary Fame

The desk at which Lamb worked achieved, in the course of time, a legendary fame, and droves of his admirers came after his death to view it and to sit upon his stool. Eventually the visitors became so much of a nuisance to the clerical staff that the messengers were told to point out a desk which stood, unclaimed, in one of the lobbies. This, they then declared, was Mr Lamb's desk, and for a few shillings offered credulous hero-worshippers the identical quill used by the essayist to enter up his ledgers!

For three and thirty years the 'gentle Elia' laboured in Leadenhall Street, sometimes grumbling at the monotony of his work, at other times proclaiming his passionate attachment to it, and to the 'dead timber of a desk' that gave him life. It was at the age of 50, in 1824, that he felt he had toiled long enough. Acting on the suggestion of his superior in the office, he tendered his resignation to the court of directors.

The outcome is recorded in the Company's minutes, dated March 29th, 1825, and was to the following effect: 'That the resignation of Mr Charles Lamb, of the Accountant-General's office, because of certified ill-health, be accepted; and it appearing that he has served the Company faithfully for thirty-three years he be allowed a pension of £450 per annum'. So Lamb's 'long servitude to the Philistine's was over; he was able to retire, to 'go home for ever'.

His emotions on that memorable day are movingly described in one of his essays – 'The Superannuated Man' – to which the reader is referred. Behind him, on the dusty shelves of the East India Company, he left his collected works – 'more MSS. in folio than ever Aquinas wrote, and full as useful'. Before him lay a new life – and though retirement brought its own problems – he was free to make jaunts into Hertfordshire, to visit the British Museum, and browse in Soho bookshops. The stately home of the merchants knew him no more, except when he chose to visit old friends and cronies.

COMPETITION IN SHIPPING

SHIPPING COMPANIES EXEMPTION ORDER DEFENDED

Address at London Chartered Accountants' Luncheon

by SIR DONALD ANDERSON

a Deputy Chairman of the Peninsular and Oriental Steam Navigation Company

I DO not intend to talk about accounts because I know so little about them and you know so much. I intend to say a few words about shipping but I might as well enter into that *via* accounts and I will preface my remarks by saying that shipping accounts have won an enviable place for themselves in your view and that of others by their obscurity. There are, I think, two reasons for that: one is that shipping has in its ancestry a Scottish strain, in fact even a family Scottish strain, and you will never find a Scotsman who admits anything, certainly not when he has made a profit. The second reason is a more technical one, the Shipping Companies' Exemption Order, 1948, which actually makes it allowable for us to hide our lights under certain bushels if we wish to do so.

I would draw your attention to the fact that this Order is remarkable among Orders since it has good sense behind it. It does actually underline something that is vital to any understanding of shipping, and that is the extraordinary amount of competition which we in shipping meet. It is a fact that shipping, among all trades and businesses, is a competitive one. We sometimes hear people talk

as though we were among the sheltered industries of the country, but that is not so. In that respect shipping is unique and when I say 'unique' I mean just that.

Shipping has no home market whatever; the coastal ships round the coast of the United Kingdom are open to competition from any ship which likes to come there, which is unusual, even in shipping. There is no coastal reservation at all. There is no subsidy, no tariff, no protection of preference. There is no development money in shipping as in other industries, for technical and other reasons, and there are no free services from the Government. We do not have ports provided for us - we pay for our own. We do not have a free meteorological service.

An address given at a luncheon of the London and District Society of Chartered Accountants on November 18th, 1957.

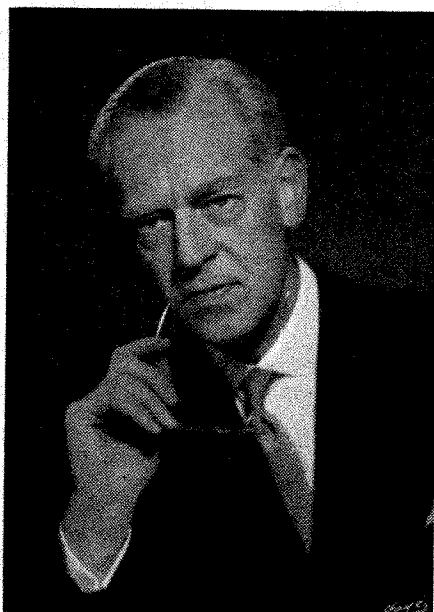
All these things are provided at our own expense and that means at the expense of those who use our ships. They are provided by the industry out of its earnings. That is not the case with other forms of transport.

Finally, there is no protection even by the existence of transport costs. If you are a manufacturer of any sort, even assuming that you have no tariff protection or subsidy whatever, at least you have the protection that your competitor on the Continent, even 100 miles away, has to pay for his transport to your country or even within Europe. In the case of shipping, all ports are open to all ships, all trades are open to all ships, and our foreign competitors can put their ships into trades at the same selling costs as we can. It is for those reasons that I say we are unique - not in the sense of quality but for the reason that I believe we are living in greater competition than is any other business in the world.

Now in certain respects this competition is moderated by the getting together of snipping interests themselves, and the 'conference' system is one of the means. I shall not go into that here because it is something that

needs a lot of explanation in order to understand what it is trying to do. To come back to my point, I would remind you that even with this getting together we have fights from time to time. In the last ten years we have had two in which my company has been involved, one against the Japanese and one against the Dutch. In each case we should have found it unpleasant had our competitors known how much we were losing. In one case it went on for three years.

It is that sort of thing which does mean that there is genuine value in this Exemption Order. But that is not true when you have a company which is engaged in a great number of trades, so that its position in any one of them cannot be interpreted from its accounts. The P. & O., as a company, is interested in many trades, from which it would not



Sir Donald Anderson

be possible to deduce what we are doing in any one trade; so we do not make use of that Order. But others do, and while it does not matter if you show your profits, it may be extremely damaging if you show what losses you make.

Well, I have talked about competition in the shipping world. What is the shipping world? It consists of about 100 million gross register tons, of which about 86 millions are active. The United Kingdom's share is 18 millions or 21 per cent; that of the United States of America 10 million, Norway 8 million, and our old friend Liberia $6\frac{1}{2}$ million. Shipping is divided into tankers and dry cargo ships and in the case of dry cargo the British share is very much larger, relatively, than in the case of tankers. In tankers we stand just at the top of the league table but we have not nearly so much in tankers as in dry cargo ships.

Flags of Convenience

The astonishing thing is the share of Liberia, which, in fact, should not be regarded as a separate team. 'Liberia' is simply a name for one flag, one registration, similar to which are to be found others, notably Panama and to a small extent Costa Rica and Honduras, who simply fly the flag of tax evasion. Their total combined tonnage is second in the world to that of the United Kingdom and their tanker tonnage is first in the world. They now control more tanker tonnage than the United Kingdom and all that has happened in the last ten years. It is really a most fantastic example of the effect on commerce and industry of taxation in the various civilized countries of the world.

What are the implications of this? There is, of course, wartime employment. I remember at the Ministry of Transport in the early days of the war being told that our first job was to get hold of 200 Norwegian tankers - Norway being uninvaded and neutral. That was not easy. We were told that unless we got them this country would have no oil; but to get 200 Liberian or Panamanian or Costa Rican tankers in time of war would be a far less practical proposition; it would be impossible.

In peacetime, there is a difference between what happens in good times and what happens in bad times. In good times the tax on this amount of shipping is lost to a number of countries. In bad times you get all sorts of effects. The owners under those other registrations have no need to keep up to the standards required by owners in countries which take shipping seriously. At the moment they are paying good wages; if they did not, they would not get the men. Their conditions are at least as good as ours; we cannot criticize them on that ground in these days, but, come a slump, come times of unemployment, you have owners bound by no conventions and free to act as they please. It is for the trade union side of the industry to remember, particularly in its international relations, what will happen when things are not as good as they have

been for the last few years, and things are turning not so good now.

There is perhaps not much point in discussing this; no one has found a solution - with the best will in the world. The President of the Chamber of Shipping suggested the other day, as his personal opinion, that the shipping countries who happen to be shipbuilding countries might get together and refuse to build or sell shipping to any of these flags. That would, perhaps, be a painless way of dealing with the question; I do not know, however, whether shipbuilders would look upon it as painless. It would be up to them not to sell to Panama but to sell elsewhere. There is little prospect of this because of international difficulties, so I do not think I can say that there is a solution in sight, but I can assure you that there is a very real problem and that it becomes greater every year with competition increasing enormously and taxation, not only in this country but in others, not diminishing.

The basis of competition between shipping depends upon whether you are running tramp ships or liners. Tramp ships depend on a basis of remuneration governed entirely by the laws of supply and demand. The market for tramps goes up and down. There is no fixed rate for their services; you pay what you have to pay to get a ship.

As far as liners are concerned, they are always limited by the fact that if they charge too much, they invite other liners or tramps to come in and take their business. We have always to equate liner rates with the market in due course because we cannot close our business to others; others will always flow in if they see something which is attractive to them.

An Unofficial Classification

World competition is competition based on many different factors, and I am going to put forward an unofficial classification drawn up in inverse order of economic efficiency.

We start with *State-created* mercantile marines such as those of the Arab countries: Iraq, Iran, Saudi Arabia and so on. These deal in aspirations rather than realities.

The next stage is *State-subsidized* mercantile marines. They may be subsidized for one of two reasons, either because of the high standard of living such as in the United States, Canada and Australia, or because there isn't one, as in France and Italy. If you want to subsidize, you can always argue one way or the other.

The next category is the *State-aided* mercantile marine as in the case of India, Pakistan, Burma and Indonesia. This is done on the grounds that the country is undeveloped. Or perhaps as in South America, because there is something in it for somebody. Another reason for a State-aided mercantile marine is when it is part of an aggressive trade policy. The outstanding example of that is Japan, where it is part of their policy of trade expansion.

The next category on the list is the *State-handicapped* mercantile marine, very heavily taxed and which makes a high contribution to the national income. That is the category in which we find ourselves and it is also the case in Scandinavia, East Germany and Holland and would be in the case of Greece if she were in her right mind.

Finally, there are the *Stateless* mercantile marines, those of Liberia, Panama and Honduras, which goes to show that the less government you have the happier you are in shipping!

So there we are. Look all around the world and you will find our competitors. The conditions which led to the vast size of the British mercantile marine over the past eighty years have gone. Our grandfathers had enormous advantages, but they have disappeared. They had coal exports, grain imports and enormous migration traffic. They were first with the industrial revolution, and these things have gone. We are now on a parity with anybody else. Our future depends on three main factors, first of all, the burden of taxation compared with that

suffered by any other flag under which ships can be operated. Secondly, the growth of flag discrimination, when countries discriminate in favour of the carriage of goods under their own flag, and more and more they are doing that. More and more shippers find it difficult to get export licences, unless the ship is sailing under their national flag. That is a source of anxiety which seems likely to get worse rather than better.

The third factor is our own efforts and how successful they can be. I claim that the leading British owners of any type of ship are not surpassed by any others in the world. Foreign shipowners still look to us to lead them and they take it for granted that we will. Let us see to it that they are not disappointed. We have the expertise and experience built up by our forerunners, which are of enormous value so long as we realize that they are not going to carry us through unless we have new ideas ourselves. That is our responsibility and it depends on us whether we can carry on during the next hundred years as during the last.

FIGURES FOR COST REDUCTION—II

by R. WARWICK DOBSON, C.A., F.C.W.A.

Pre-expenditure Figures

I HAVE dealt at some considerable length with figures relating to the potential and actual use made and the cost of employing the various factors of production. I have taken it, as my brief, that we are concerned with figures which reveal how successfully costs can be or have been reduced. I am, however, mindful of the need for figures prepared before expenditure is incurred on these factors of production.

This, of course, is a much more extensive subject which I can only briefly hint at, as it goes far beyond figures and enters the sphere of expenditure control and records administration.

We have a need, for example, of figures which tell us what advantages will accrue if we buy a particular machine, alter the layout of a shop, install mechanical handling, or move to new premises. The call here is for figures and still more figures—not after, but before we incur the expenditure.

We have a need, too, of stock figures, of future production figures, of delivery figures, of prices, before we place orders for supplies of materials.

We have a need, again, of figures which will show whether work is being organized properly in offices, before we decide to engage additional or more highly-paid staff.

We have a need for figures relating to each aspect

of business activity before making a decision which will have an effect upon costs.

This leads me, naturally, to the second main category of figures. No item of expenditure in a business just happens of its own volition—someone has to authorize it or incur it.

What is more natural then, than to show periodically the expenditure incurred by every person during a given period of time, such expenditure to be shown under useful appropriate categories. Not only may comparisons of expenditure in successive periods of time be made, but each item of expenditure can be compared with the output of the department, and variations of cost per unit of output over several periods can be revealed.

The value of such figures can be substantially improved if standard relationships between expenditure and output are calculated and variations between actual and standard cost figures calculated and explained.

A further improvement consists of preparing, prior to a given period, a budget or target of the expenditure to be incurred under each heading by each person responsible for incurring it, and at the end of the period, showing the budgeted and actual expenditure together with an explanation of significant variations between the two sets of figures.

Budget Statements

There are two forms of budget which may be used: fixed budgets and flexible budgets.

The second part of a paper presented at a conference organized by the North London Committee of the British Productivity Council in London. The first part appeared in last week's issue.

The fixed budget

This is based upon the unrealistic assumption that if output should vary, expenditure should not. We know, of course, that different types of expenditure behave in different ways. We know that some items of expenditure move up and down in almost direct relationship to output, while others remain at the same figure whatever the level of output may be.

It must be quite apparent that should fixed budgeting be employed, the comparisons which can be made from the periodic statement must be modified to a degree which is by no means obvious from the statement.

Fixed budgets have their uses, however. They can be used where a certain fixed allocation is made to cover a particular item of expenditure such as research, development or advertising. This procedure is valid because there is no relationship between current expenditure and current output.

The flexible budget

In order to overcome the defects of the fixed budget, the flexible budget is used. It is based on the realistic assumption that costs do vary when output varies. What in effect happens is that the fixed-budget figures which have been calculated in relation to an expected level of output for a particular budget period are modified to bring them into line with what one would expect them to be at the level of output which was, in fact, realized during that budget period. In other words, an allowance is made for the variations in cost which arise from variations in output.

Obviously, the allowance for variations in costs which move in sympathy with output will be greater than that for variations in costs which remain fixed at all output levels – all of which is, of course, in accord with our knowledge of cost behaviour.

With regard to the content of these budget statements, they should contain details of the output of the department, centre, process, or activity for which the person is responsible. They should also include details of the expenditure incurred directly by that person and, if thought appropriate in the circumstances, expenditure incurred by other people, the benefit of which is felt by the department, process, or centre. If standards as well as budgets are employed, standard data can also be incorporated in the budget statement. If, in addition, a value is placed on the output a miniature profit and loss account is in effect produced for every manager in the organization.

The Managerial Advantage of Budgets

The principal merit of this method of presenting figures is that the collective results of the activities of any layer of the pyramid of management can be synthesized from these miniature profit and loss accounts. Similarly, the overall results of any activity

or sector of management can be analysed to reveal where inefficiencies are occurring and excess costs are being incurred.

Another merit is that any particular member of the management pyramid need concern himself only with the overall results and not with the detail of the operations he is responsible for. Admittedly, the higher the level of management to which these figures are submitted, the less is their value as a means of locating in detail the out-of-line costs, but they do provide an overall indication of the trend of costs.

Again, budgets have the merit of being applicable to any business activity, whether it be design, development, pre-production, production, selling, distribution, transport, administration, material supply, personnel, or plant engineering.

Figures Relating to Products

I come, finally, to the third main category of figures, namely, those relating to the product. I should like to emphasize that by product I do not mean only what we sell to our customers. I include products of every kind whether it be the fish and chips in the canteen, the tool in the toolroom or the ledger card in the accounts department. All these are products of some business activity or another and as such should be given close attention where reductions in costs are sought.

Figures can be produced relating to the following aspects of the product: quality; quantity; cost; profitability.

(a) Quality

Any failure to maintain internal standards and the cost of such failure can be revealed simply by a statement derived from inspection department and cost department data. Such data would show the number and percentage of rejects to the total inspected and the total produced, the cause of spoilage if identifiable, i.e. the operator, the machine, the material, the method, and the number or percentage returned for rectification. At the same time there would be shown the cost incurred on the unrectifiable products up to the stage at which they are scrapped. As a supplement to these figures, a periodical statement showing the cost of rectification can be prepared by the cost department. Changes in internal standards and improvements in meeting these standards are revealed by such information.

As a test of these internal standards, some means should be adopted of bringing together in one department, and presenting in one statement, the various reactions to one's products which may emanate via market research, representatives, service engineers' reports, users' letters, or long-suffering telephone operators. I am certain one would be surprised to find how much assistance can be obtained from figures of this type in reducing the many costs which must

be incurred where the product does not meet customers' requirements.

But what of the standards of quality of products created internally. Is the quality too high or describable only in unparliamentary terms?! Here again, one must rely on the collective reactions of the users and means must be sought of bringing these reactions together and expressing them in terms of figures. Happy are those firms who can afford an O. & M. department!

(b) Quantity

For a given supply of resources, the greater the quantity, the lower the cost – in other words, higher productivity.

I have already mentioned a number of figures whose consideration is vital where the quantity of the product is at stake. Setting up times in connection with machine utilization; waiting for supplies, instructions, setters; machine breakdowns; and others.

In addition to those figures, one useful statistic is the number of orders received during a period in each quantity-size group. Any tendency towards an increasing number of smaller sized orders, which can be revealed by such data, deserves careful watching by management.

An approximate but useful piece of information can be obtained by analysing the relationship, over a period, of output and costs. Such an exercise can reveal to what extent one's costs are fixed, and as a result, the influence of fixed costs on the unit cost of increasing output. An analysis of this sort shows whether in its cost reduction programme a business should concentrate on reducing those costs which are constant for each unit of output, or on those costs which are variable for each unit of output. In the former case an increase in the productivity and a reduction in the cost of material and labour is indicated, while in the latter case an increase in the productivity and a reduction in the cost of equipment, services and management is denoted.

Quite obviously a 10 per cent cut in an 80 per cent level of variable costs is worth much more than a similar cut in a 20 per cent level of fixed costs.

(c) Cost

This, of course, is the cost we are really talking about when we mention cost reduction. So far as cost reduction is concerned, the cost of the product is the end result, but so far as the figures which assist in cost reduction is concerned, it is only the beginning. By itself, the cost of a product tells us very little.

It is first of all a combination of all the costs we have so far considered in detail. It is what we might describe as a 'cost omelette' and as such is just as useful in indicating what costs have gone into its making as its culinary counterpart is in revealing how many eggs have been tipped into the omelette pan.

It is, secondly, a figure which may be right and

may be wrong – depending on how you look at it. It depends on the costing methods and principles employed by the person calculating the cost – and cost accountants will know, I am sure, just how many principles and varieties of methods can be employed in calculating a product cost.

We must, therefore, handle product costs as we would handle the raw material of an omelette – with extreme care. Of course, we are fairly safe if we look at the cost of the materials contained in the product, providing the cost of labour and overhead incurred on component parts is eliminated – rather an impossible requirement, don't you think?

(d) Profitability

This point seems at first sight to be rather remote from cost reduction. I mention it, however, as it has a place in costing practice which is relevant to our subject.

If we limit the cost of a product to those costs which can be identified as varying absolutely in step with variations in output of that product, then we have for constant selling prices a constant figure of what we may, for practical purposes, describe as profit per unit of product or output. This margin of profit is then considered as covering those costs which do not vary in accordance with variations in output and yielding the operating profit of the business.

It can be demonstrated – although it is not my task to do so here – that if the constant profit margin of each product is related to the quantity of that factor of production which limits the output of each product, that product which yields the maximum profit per limiting factor can be located. From a business point of view, this is of vital importance, because by selecting for manufacture those products which provide the maximum 'contribution' as this profit is called, a business can maximize its profits. Having maximized its profits in this way, the business will find that its non-variable costs per unit of production will move towards a minimum. This is because the method described leads logically to the maximization of output.

Conclusion

I have dealt in the course of this paper with figures relating to the several factors of production which are employed by business, with figures relating to the responsibilities and activities of the members of a business organization, and finally with figures relating to the products of business activity; all of which, as I noted earlier, amount to a great deal of data, whose digestion, at one sitting, is an Herculean task.

However, while the figures I have outlined are suggested as a means of assisting management in carrying out a programme of cost reduction, there are, of course, many variations and modifications of such data.

(Concluded.)

Weekly Notes

The Wisdom of Mr Solomons

The categorical statement of a delegate at the recent annual conference of the London Co-operative Party that some chartered accountants were 'socially undesirable' because they helped people to avoid taxation, merits more than a moment's consideration. The speaker, Mr H. Solomons, of Barons Court, assuming that he was not so rash as to make such a comment without knowing what he was talking about, was fully entitled to have his say on the matter but, unfortunately, the newspapers which quoted him did not go so far as to report any of the reasons which he must have given to his fellow delegates in support of his views. The result, in retrospect, is that in the eyes of those who believe everything they read in the newspapers, some (although not all) chartered accountants stand socially condemned. On the other hand, to those who appreciate the subtleties of tax law and practice and are aware of the good relations which exist between the accountancy profession and the Inland Revenue, Mr Solomons, on the sole evidence of his unadorned statement, must appear slightly ridiculous.

The ambiguous situation which has thus been created is obviously unsatisfactory, both to (some) chartered accountants and, if he has given his own position due thought, to Mr Solomons. The best thing he can do in these circumstances is to come forward and state his case in full. If he succeeds in proving it, then the profession and the public will be his debtor. If he fails to do so, which is much more likely, then those chartered accountants who have been in the habit of doing so in the past, will continue with renewed enthusiasm and the righteousness which a clear conscience inspires, to help people to avoid taxation, having, as always scrupulous regard for both the requirements of the law and the ethical standards of their profession.

Import Duties Bill

The text of the Import Duties Bill has now been published, its purposes being stated, in the explanatory memorandum, as replacing the existing protective tariff legislation by a single comprehensive measure, the introduction of new machinery for dealing with applications to alter duty, and the recasting of the existing tariff in the form of the Brussels Nomenclature (an internationally agreed classification).

In considering what import duties ought to be imposed, the Board of Trade and the Treasury are required by clause 1 to have regard to, among other things, the interests of consumers in the United Kingdom. This clause also provides for the general imposition of duties by mere Treasury order, instead of laying down a general *ad valorem* rate subject to exceptions. The new tariff is expected to come into force at the beginning of 1959.

The Bill has sixteen clauses and eight schedules but it is encouraging to note that the last of these schedules repeals provisions in over forty previous Acts. It remains to be seen whether orders under the new legislation will be more comprehensible than the existing somewhat chaotic collection of orders.

Crisis for the Free Trade Area

One of the results of the Tunisian crisis has been to put the free trade area in further jeopardy. The appeal of the free trade area, so far as the French are concerned, has all along been political rather than economic. The French have seen some advantage in having an economic union of some sort which brought in the United Kingdom as a balance to Germany. They have all along been sceptical about the economic advantages to France of a free trade area as opposed to an economic community as envisaged under the Treaty of Rome.

It follows that when the political outlook between France and Britain is stormy, the French are likely to impute some Machiavellian motives to the British preoccupation with the free trade area proposals when, for them, the critical issue is Tunisia and its relations with Algeria. The free trade area discussions have made a fairly good start in Paris over the last few weeks. It will have been a major achievement if that course has not been made more erratic by the French distaste for British foreign policy at the present time.

An Honest Pound

Those who have long-argued for stability in the purchasing-power of the pound at home and its maintained parity abroad will welcome the efforts which the Government are making to acquaint the public with the importance of a stable pound. In the latest *Bulletin for Industry*, issued by the Treasury, an article is set out giving the four main reasons why the pound's value must be maintained. The article lists these as the need of a stable currency at home as a foundation of social life, the importance of stable domestic prices because of their impact on export prices, the international functions of sterling and the banking functions which sterling provides for the free world.

A simple, illustrated booklet was put out at the end of November, price 6d, in order to reach a much wider public than does the *Bulletin for Industry*. The Government have taken on a hard task in trying to educate the general public in the elementary economics of sterling. It is to be hoped that some way can be found of relating propaganda of this kind to the national savings campaign with which it is closely connected. If the nation would save more there would be less need for public instruction in the purchasing-power of the pound.

Bus Claim Rejected

London Transport Executive this week rejected outright the bus workers' claim for an increase in wages of 25s a week. It has been expected for some time that the two test cases on wage policy this winter would be the railways and the London busmen. The death in Russia of the president and general secretary of the N.U.R. has somewhat delayed the railwaymen's claim and the first impasse on wage increases has therefore come in one of the more militant sections of the Transport and General Workers' Union.

It is not likely that the bus workers in London and their trade union officials see eye-to-eye on this claim. The officials would have preferred to see a wider claim being prepared but the London workers have insisted on going it alone. If the union officials, who have to have some regard to the level of their funds, were left to handle the situation without pressure from below it is likely that the case would go to arbitration. It remains to be seen, however, whether the London bus workers will be prepared to accept this compromise procedure or prefer to test public opinion by means of a strike. It is noticeable that the London Transport Executive have made no counter-proposals. They at least appear to have decided on a policy of no concessions.

America in the Fall

The Department of Commerce in the United States has a panel of 100 business executives called its Business Advisory Council. This has just held its semi-annual meeting and given as its considered view that there may be a slight fall off in business activity in the United States this winter, followed by a recovery about the middle of 1958. This view is fairly orthodox in America at the moment.

The important consideration from now on is how long the recession will last and how far it will go. World trade is already somewhat vulnerable owing to the low level of commodity prices, some of which have been dropping steadily since a year last summer. Territories dependent on copper and rubber, for example, cannot take a further significant drop in the price of these commodities without very serious repercussions on their prosperity, hence on their ability to import. In the United States, as in this country, there is a consumer goods boom and a mild recession in capital equipment. The authorities, who have been pursuing a tight credit policy for some time, are faced with the task of manipulating their monetary machine in such a way as to stimulate capital investment while putting a brake on consumer goods—a task which is not efficiently handled by juggling with interest rates. The difficulty of the situation for the Administration may well give it the appearance of an indecision which could lengthen and worsen the depression. Opinion in the United States is optimistic about the duration of the recession, some seeing no more than a slowing down in expansion as the prospect. The more provident ones are hoping for the best but preparing for something slightly less welcome.

National Water Policy

The Minister of Housing and Local Government said last week that the regrouping of water undertakings would precede the reorganization of local government boundaries. He made it clear that the Government would not hesitate to use its compulsory powers if there was resistance to regrouping in any area and if local pride became an obstacle to increased efficiency.

He said that he hoped that capital expenditure for water supply would continue at 'something like the present level'. He was insistent that the industry should continue to plan ahead so that new schemes could be fitted smoothly into the capital investment programme as they came forward. He dropped a hint that those areas would receive the best treatment out of limited capital resources where there had been most progress with regrouping. He denied that there was a scramble for water resources. The Minister drew attention to the large amount of survey work which had been done and emphasized that within this framework he would prefer to see water development proceeding by partnership and mutual accommodation between water undertakings rather than by central planning in detail from Whitehall. Such co-operation based on survey work was to be the basis of the Government's policy. In view of the large demands on water which are likely to be made as industrial output increases, it is to be hoped that those concerned will bear seriously in mind the Minister's allusion to the compulsory powers which he holds in reserve.

Train Accidents in 1956

Last year the railways were free from fatal accidents to passengers. In 1955 there were 59 such deaths in train accidents. Over the year the number of injured also decreased, from 916 in 1955 to 590 in 1956. Taking train accidents in their wider sense these increased by 70 to 1,226. In movement accidents, which are to be differentiated from train accidents, 219 persons were killed, including 49 passengers. This represented no improvement on the year.

Commenting on the accidents in this last category, the report says that most of the increase in total injuries can be attributed to entering or alighting from trains and the opening and closing of carriage doors at stations. Commenting on the figures as a whole, the chief inspecting officer of railways says that the standard of competency and conscientiousness of railway staff and operatives is on the whole high, but there was a notable increase in the number of accidents due to errors of judgment by signal men and train crews. There were 640 accidents caused by failure of the human element and this was the highest since 1948. This increase was only partly offset by a decline in accidents due to technical faults. The large programme of modernization and maintenance which the railways have undertaken in the last few years is thus having some effect on the reliability of technical equipment but this is not being accompanied by an improvement in human judgment.

Reviews

Local Authority Borrowing

(The Institute of Municipal Treasurers and Accountants (Incorporated), London. 25s net.)

This research study deals with a subject which in normal times is a wide one, but the complexities arising from the inflationary economy in the post-war years have resulted in this work being undertaken in the most disturbed and difficult years of capital financing since long before the last war. Nevertheless, the analysis is rigorously conducted, and the final presentation contains conclusions which will assist financial officers – and indeed municipal administrators too – who are considering revising their policy or borrowing practice.

The book comprises some ninety-one pages of factual information in very readable form. In addition to the narrative are the appendices used by the team of researchers in their work, which display the form of a questionnaire sent to fifty-nine selected local authorities and to six liaison officers of local authority loans bureaux.

Part A refers to the factors which might cause the Government to vary the volume of local authority expenditure. The burden and incidence of loan charges together with ways of mitigating them are also examined. A chapter deals with the control of capital expenditure, and prominence is accorded to the use of capital estimates and long-term capital budgets and programmes for, say, five years ahead. The inflationary economic conditions since 1945, however, have taught many financial officers not to look beyond two years for practical and reliable estimates.

Part B is devoted to a study of the methods of financing capital expenditure other than by borrowing. A chapter on the use of internal funds thus comprises details on contributions from current revenues, use of balances on repair and renewal funds and employing the accumulations in capital funds derived from rate levies, capital sales and grants. The value of these mainly internal sources of financing can be judged when less than 10 per cent of the total capital expenditure of English local authorities is met in this way; the balance being defrayed from outside borrowing which is the subject-matter of Part C. For this reason it would have perhaps been preferable if Part C, the main aspect of the study, had been designated Part A and dealt with first.

The most popular method of financing capital works since the last war is by annuity and instalment mortgages from the Public Works Loan Board. Before the war it was by stock issue. The restriction on borrowing from sources other than the Public Works Loan Board during the period 1945–52, and the increase in internal funds available, are the main factors contributing to this changed pattern of local authority debt. A further chapter deals with the

Public Works Loan Board. Much of this chapter has become historical since January 1st, 1953, when local authorities were permitted to resume borrowing on the open market instead of exclusively from the Board. Some very interesting statistics, showing the borrowing experience both before and after this date, are still relevant.

The issue of stock as a means of borrowing is not treated exhaustively. The main attractions of stock are discussed, but more could have been offered on the present conditions of rising interest rates. These do not encourage long-term funding operations and the doctrine of borrowing for shorter periods in these conditions by way of mortgages and bonds is both cheaper and more expedient. It is, however, getting progressively more difficult to attract investors in these fixed-interest securities. This may be attributable in no small measure to the neglect of the local investor since the war – mainly because the Local Authorities Loans Act, 1945, made the Public Works Loan Board the sole source of loans to local authorities until the end of 1952. Persistent efforts to revive this market, by advertisement for loans in the national and local Press, are now made by many local authorities.

Altogether this little book is a genuine contribution to civic literature.

Accounting for Non-Accountants

by JOHN N. MYER

(New York University Press, Washington Square, New York. \$5 net.)

Five of the six sections of Professor Myer's book are straightforward. These deal with recording and classifying financial transactions; the preparation of accounts; the particular problems, first, of merchandising business and then of manufacturing businesses; and finally, the structure of commercial concerns. The remaining section is a not very convincing attempt to demonstrate that accounting is not a science but an art.

It would surely be nearer the mark to say that accounting is not complicated enough to be either a science or an art and that it is a technique which has become so well known that the individual judgment which might transcend it seldom needs to be seriously exercised. The present-day accountant, as far as the preparation of financial accounts is concerned, is so guided by statutes, principles, precedents, recommendations and Governmental directives that, like the young man who found that he was 'in fact not a bus but a tram', he is inclined to move in determinate grooves. Professor Myer is to be commended, nevertheless, in trying to elevate the work of the profession in the eyes of non-accountants, even if a volume of elementary book-keeping scarcely seems to be the proper medium for this missionary work.

The Principles of Auditing

by F. R. M. DE PAULA, C.B.E., F.C.A.

Twelfth edition by F. CLIVE DE PAULA, T.D., F.C.A.,
F.C.W.A.

(Sir Isaac Pitman & Sons Ltd, London. 30s net.)

Mr Clive de Paula has taken over the task of editing his late father's highly individual book which, since its original appearance in 1914, has been read with something like affection by generations of accountancy students. The only change of importance he has made in this new edition is to state his own opinions on how sums set aside for payment of future taxation liabilities should be shown in financial accounts but, with characteristic family fairness, he has set out the orthodox as well as the individual viewpoints. The rest of the work is a careful preservation of the original altered only where it has been necessary to bring the text up to date with modern thought and developments.

The Rent Acts, 1920-1957

by NORMAN C. ABBEY

(Eyre & Spottiswoode (Publishers) Ltd, London.
42s net.)

The author of this book is a legal associate member of the Town Planning Institute, an associate of the Institute of Housing, and a lecturer on real property law and cognate subjects. In 192 pages of text he shows as concisely as possible not only the effect of the Rent Act, 1957, but also the operation of the whole of the law known as 'the Rent Acts', and the law controlling the letting of furnished premises. No one could fairly describe this law as simple but the author makes a very good attempt to set it out in a manner which makes understanding possible.

In addition to the text, the Rent Act, 1957, has been reproduced, together with the unrepealed sections of the principal previous Acts, so that the reader has all the relevant legislation before him in small compass, albeit covering another 16-170 pages. This matter is of course essential; picking one's way through the statutes as originally published would be an intolerable task.

Building Societies Year Book, 1957

(Franeys & Co Ltd, London. 42s net; 43s 6d post free.)

This comprehensive work of reference which is the official handbook of the Building Societies Association, gives details and extended balance sheets of the 347 members of the Association and of the 733 building societies operating in Britain, Northern Ireland and the Republic of Ireland. Other regular features include tables showing the comparative figures for three years of total assets, current percentages of reserves, liquid funds and mortgages over £5,000 of all the larger societies.

Figures show that new advances amounting to £329 million were made to 278,303 applicants in 1956 and that the number of borrowers on societies' books rose during the year to 2,057,873. Total assets

were £169 million higher at £2,234 million. The average advance to house purchasers was £1,218 compared with £1,152 in 1955.

Investors are cautioned against investing in certain mushroom societies into whose affairs the Chief Registrar of Friendly Societies is conducting an investigation. Mere registration under the Building Societies Acts, it is said, does not itself ensure absolute safety and the discerning investor realizes that long experience and high reputation are to be preferred to mushroom growth and abnormally high interest yields.

RECENT PUBLICATIONS

COST FINDING IN THE NON-FERROUS METALS INDUSTRY. 84 pp. + 74 pp. examples. 9½ × 6. £2 2s net. The British Non-Ferrous Metals Federation, Birmingham.

SILKE ON SOUTH AFRICAN INCOME TAX, being an exposition of the law, practice and incidence of income tax in South Africa. By A. S. Silke, M.COM.(HONS.), C.A.(S.A.). xxxi + 828 pp. 10 × 6. £8 2s net. Juta & Co Ltd, Cape Town. London agents: Sweet & Maxwell Ltd.

THE LONDON CAPITAL MARKET, its structure, strains and management, by Norman Macrae. 285 pp. 8½ × 5½. 25s net. Staples Press Ltd, London.

AN OUTLINE OF ACCOUNTING, by Louis Goldberg, B.A., M.COM., F.A.S.A. Foreword by Sir Alexander Fitzgerald, B.COM., F.C.A. (AUST.). viii + 150 pp. 8½ × 5½. 17s 6d net. Sweet & Maxwell Ltd, London.

MANUAL OF MODERN BUSINESS EQUIPMENT, Parts 22-26. 8½ × 5½. Each part 4s 6d net. (Complete work consisting of 26 parts, including two loose-leaf binders) £5 5s. Macdonald & Evans Ltd, London.

IRISH INCOME TAX AND CORPORATION PROFITS TAX, by H. A. R. J. Wilson, F.C.A., F.S.A.A., and F. N. Kelley, B.A., F.S.A.A. xxiii + 287 pp. 8½ × 5½. 35s net. H.F.L. (Publishers) Ltd, London.

THE PRINCIPLES OF MODERN COMPANY LAW, second edition, by L. C. B. Gower, LL.M.(LOND.). xlvii + 631 pp. 10 × 6. £2 10s. Stevens and Sons Ltd, London.

INCOME TAX AND PROFITS TAX IN A NUTSHELL, by The 'B.C.A.' Tutors. xii + 202 pp. 8½ × 5½. 17s 6d net. Textbooks Ltd, Harpenden, Herts.

BUSINESS CHARTS, by T. G. Rose, M.I.MECH.E., with foreword by Sir Graham Cunningham, K.B.E. xii + 132 pp. 8½ × 5½. 21s net. Sir Isaac Pitman & Sons Ltd, London.

CHALMERS' SALE OF GOODS ACT, 1893, including the Factors Acts, 1889 and 1890. 13th edition, by Paul Sieghart, Barrister-at-Law, with the assistance of Edwin J. Prince, B.A.(OXON.). lxxix + 290 pp. 8½ × 5½. 35s net (by post 37s 3d). Butterworth & Co (Publishers) Ltd, London.

COSTING IN THE TEXTILE BLEACHING, DYEING AND PRINTING TRADE, published under the auspices of The Textile Finishing Trades' Association. ix + 67 pp. 8½ × 5½. 21s net. Sir Isaac Pitman & Sons Ltd, London.

LECTURES ON ECONOMIC PRINCIPLES, Vol. 1, by Sir Dennis Robertson. 172 pp. 8 × 5. 16s. Staples Press Ltd, London.

REPORT ON FARMING, 1956-57. A study of production and profits in the Eastern Counties with an advisory supplement and efficiency standards. Farm Economics Branch Report No. 46. 39 pp. 9½ × 7. Farm Economics Branch, School of Agriculture, Cambridge. 3s 6d (post free).

THE MALTA DIRECTORY AND TRADE INDEX, 1957. xvi + 400 pp. 9½ × 7½. 25s 6d net. Malta Publicity Services Limited, Valetta, Malta.

ELEMENTS OF CREDIT INSURANCE. An international survey, by Hans Karrer. vi + 194 pp. 8½ × 5½. 45s net. Sir Isaac Pitman & Sons Ltd, London.

THE IRON AND STEEL INDUSTRY IN EUROPE, a Study by the Iron and Steel Committee. 93 pp. 9½ × 6. The Organization for European Economic Co-operation, Paris. H.M.S.O., 10s net.

Finance and Commerce

Despite the easing of interest rates in the United States and in Canada the prospect of a continuing recession in North American business conditions is having an unsettling effect on the stock-markets. It is recognized that action now taken will be slow to assist in checking the business downturn. Any parallel easement of money rates on this side can hardly be contemplated for the time being. Meanwhile, the London market is also affected by the prospective weight of new capital operations and by the resultant competition for investment funds. Turnover in the markets is narrow and seems likely to remain so in the immediate future.

Allied Bakeries

This week's reprint gives the accounts of Allied Bakeries Ltd whose consolidated balance sheet, mainly owing to a writing-up of assets following a valuation, now totals over £44 million. The property valuation as at April 1st, 1956, put the value of these assets on a going concern basis at £7,140,000 in excess of book values. Values have been written up in the subsidiaries' books by the excess and a similar amount has been placed to capital reserves to 'give a better appreciation of the present-day values of the capital employed in the group'. Issued capital has been increased on a one for two basis by a capitalization of £2,796,425 from general reserve.

In past years, it is further pointed out, the company and certain subsidiaries appropriated from profits sums totalling £5,977,000 to reserves in respect of depreciation and goodwill which, owing to the valua-

tion, are no longer required for the purposes for which they were created. These reserves have now been redesignated general capital reserves and bring the total of capital reserves to £14,178,000, from which has been deducted £7,860,000 of intangible assets.

The expansion in fixed assets from £18,140,000 to £29,961,000, including the £7,140,000 surplus, has involved an increase of £523,000 to £2,340,000 in the provision for depreciation.

The millions in the Allied Bakeries accounts have grown substantially in recent years by acquisitions in the bakery industry. The group also includes the Aerated Bread Co Ltd with its tea shops, restaurants and allied services. There is no record of the businesses in the group with the report and accounts, however.

Nine Months After

Over nine months after the closing of the books, Townsend Ferries & Shipping Ltd produces its first accounts. Nine months is far too long. It means that when shareholders meet to consider the accounts, they look back to a period nearly a year behind. One accepts the fact in this case that the present board has been in control only since April last and much time has obviously been given to consideration of the future development of the business. Readers will recall the somewhat dramatic events (noted in our issue of May 11th, 1957) that led to the change in direction only a few months after the offer of the shares to the public.

One particular point was the employment of the

ALLIED BAKERIES LIMITED AND SUBSIDIARY COMPANIES Consolidated Profit and Loss Account for the Year ended 30th March, 1957

	£	£	£	1955-56 £
GROUP PROFIT for the period (note 1)			5,092,000	5,064,000
Less: United Kingdom taxation (note 2):				
Income tax		2,376,000		2,310,000
Profits tax		464,000		337,000
			2,840,000	2,647,000
NET PROFIT AFTER TAXATION			2,252,000	2,417,000
Less: Net profit applicable to minority interests			190,000	196,000
PROFIT APPLICABLE TO ALLIED BAKERIES LIMITED			2,062,000	2,221,000
Add: Balance at 1st April, 1956			429,000	425,000
BALANCE AVAILABLE FOR APPROPRIATION AND DISTRIBUTION			2,491,000	2,646,000
APPROPRIATIONS				
Capital issue expenses		17,000		233,000
Reserve against trade investment, by a subsidiary		125,000		217,000
Capital reserves (note 3)		109,000		217,000
Revenue reserves (note 3)		1,000,000		1,202,000
			1,251,000	1,652,000
DIVIDENDS OF ALLIED BAKERIES LIMITED				
Preference dividends, less income tax		83,000		83,000
Ordinary dividends of 22½%, less income tax		723,000		482,000
			806,000	565,000
			2,057,000	2,217,000
BALANCES CARRIED FORWARD				
By Subsidiary companies		147,000		147,000
By Allied Bakeries Limited		287,000		282,000
			£434,000	£429,000

[The notes are reproduced on page 640. - Ed.]

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ALLIED BAKERIES LIMITED AND SUBSIDIARY COMPANIES

Notes on the Accounts

1. GROUP PROFIT is stated after:

	1957 £	1956 £
Crediting—		
Rents, interest and sundry revenue, less interest paid	475,000	275,000
Income from trade investments	15,000	19,000
Charging—		
Depreciation of fixed assets	2,340,000	1,817,000
Interest on debentures and fixed loans	308,000	176,000
Auditors' remuneration: Allied Bakeries Limited	1,000	1,000
Subsidiaries	49,000	42,000
Pensions paid to past employees and employers' contributions to pension and life assurance schemes	676,000	530,000
Directors' emoluments:		
Fees, including £1,700 (£1,700) received from subsidiaries	2,400	2,400
Executive remuneration, not including £21,000 (£20,000) received from holding company	40,000	36,000
Pension to a past executive director	1,000	2,000

2. UNITED KINGDOM TAXATION has been provided on all profits earned up to the date of the accounts. No provision has been made for United Kingdom income tax on profits of overseas subsidiaries not remitted to this country. All overseas taxation due in respect of profits earned by those companies has been included in the accounts as a deduction from group profit.

3. APPROPRIATIONS TO RESERVES:

	Company £	1956 £	Group £	1956 £
Capital reserves—				
General capital reserves	—	116,000	32,000	122,000
Written off goodwill, including costs of acquisition	46,000	25,000	77,000	95,000
	£46,000	£41,000	£109,000	£217,000
General revenue reserves	£671,000	£1,000,000	£1,000,000	£1,202,000

4. CAPITAL RESERVES:

	Company £	1956 £	Group £	1956 £
General capital reserves—				
Depreciation reserves—previous balances	2,798,000		3,080,000	
Goodwill reserves—previous balances	1,828,000		2,897,000	
Capital reserve of a subsidiary—previous balance	—		132,000	
Appropriated from profits	—		32,000	
Surplus arising on valuation of estate property (note 7)	—		7,140,000	
Share premium account	—	4,626,000		13,281,000
Less applied against intangible assets (note 6)	—	897,000		897,000
Balances, per balance sheets	—	5,523,000		14,178,000
				7,860,000
				£6,318,000

5. GENERAL RESERVES:

	Company £	Group £
Previous balances	4,750,000	5,609,000
Added from non-trading surpluses	—	63,000
Appropriated from profits	671,000	1,000,000
Less utilised for issue as fully-paid of 5,592,851 "A" and 5,592,851 "g" ordinary shares of 5/- each	2,796,000	2,796,000
Balances, per balance sheets	£2,625,000	£3,876,000

6. INTANGIBLE ASSETS:

	£
Previous balances at cost:	
Excess of valuation	3,780,000
Goodwill	4,731,000
Less written off by subsidiaries	8,511,000
Net reduction during year (after writing off £77,000)	637,000
Balance, applied against group capital reserves (note 4)	7,874,000
	14,000
	£7,860,000

7. FIXED ASSETS:

Estate property is shown at the amount of professional valuations as at 1st April, 1956, or at the dates of acquisition in the case of subsidiaries subsequently acquired, plus additions at cost and less depreciation from the dates of valuation or later addition. The surplus on valuation of £7,140,000 has been transferred to capital reserves (note 4). Other fixed assets are shown at cost less depreciation.

8. Contracts for capital expenditure have been entered into by the company and its subsidiaries to the extent of approximately £2,650,000.

9. Trade investments include £385,000 (cost £510,000) in respect of an investment in a company which is a subsidiary company within the meaning of the Companies Act, 1948, but since the group does not have voting control and does not participate in the management of the company, the investment has been treated in the accounts as a trade investment.

10. The accounts of certain home and overseas subsidiaries have been made up to dates other than 30th March, 1957, in the case of home subsidiaries the conditions of trading and taxation considerations make it undesirable to adopt the holding company's accounting date.

11. Assets and liabilities abroad have been converted into sterling at the official rates of exchange at 30th March, 1957.

Current Law

Setting Aside of Bankruptcy Notice

Re A Debtor (No. 30 of 1956) ex parte The Debtor v. Harman and Another ([1957] 2 All E.R. 216) is of importance as showing that the Court will, in a proper case, set aside a bankruptcy notice on grounds other than those set out in Section 1 (1) (g) of the Bankruptcy Act, 1914, namely a counter-claim, set-off or cross demand. The debtor applied to set aside a bankruptcy notice, on the ground of satisfaction, but the application was not presented until seven days after the service of the notice. Rule 138 of the Bankruptcy Rules, 1952, provides that an application to set aside a notice must be given within three days, but the Divisional Court of the Chancery Division, on appeal by the debtor, held that the rule only applied in conjunction with Rule 137, which deals with a counter-claim, set-off or cross demand. Their lordships held that satisfaction was quite different from any of those three things so that the requirement in Rule 138 that a notice to set aside should be issued within three days did not apply, and they made an order setting aside the bankruptcy notice accordingly.

Indemnity Insurance:

Insurer's Right to Subrogation

In *Re Miller, Gibb & Co Ltd* ([1957] 2 All E.R. 266) a summons taken out in the compulsory liquidation of a company, the Board of Trade applied for an order reversing the rejection by the liquidator of the Board's claim to be subrogated to the company in respect of a policy of insurance. The company had carried on the business of exporters and had obtained from the Board under the Exports Guarantees Act, 1949, a policy under which the Export Credits Guarantee Department of the Board agreed, subject to the terms of the policy, to pay to the company a percentage of the amount of any loss (as defined therein) which it might sustain in respect of goods sold and shipped from the United Kingdom to any buyer in the countries specified in the schedule to the policy, which countries included Brazil, by reason of any of a number of clauses which were set out. The policy further provided that any sum recovered by the company or by the Department after the date at which the loss was ascertained from the buyer or any other source should be divided between the Department and the company in the proportions of 90 and 10. Furthermore, it was an express term of the policy that the Department, on making payment thereunder, should have the right to require the company to transfer to it its rights under any contract in respect of which payment had been made, for the purpose of effecting recoveries by the Department from the buyer. Owing to Brazilian currency exchange regulations then in force the company failed to obtain payment in respect of certain goods exported to Brazil and the Department duly made a payment to the company in accordance with its obligations under

the policy. Subsequently, after the company had been ordered to be wound up, the full purchase price of the goods in question was received in sterling from Brazil by the bank which was acting for the company. The liquidator contended that he was entitled to the whole of this payment for the benefit of the creditors generally.

Wynn-Parry, J., held that, by reason of the nature of the contract between the Department and the company, the Department became subrogated to all the rights of the company, so that, had the sterling sum in question been received by the company, it would thereupon have become a trustee thereof for the Department. His lordship held furthermore that when the company made its claim on the Department it gave undertakings which amounted to an equitable assignment to the Department of its rights, and also that instructions which it gave to the bank amounted to a legal assignment. For all these reasons the application of the Board succeeded and the decision of the liquidator was reversed.

Omission of Words in Will

When the Court may supply words omitted from a will was considered by the Court of Appeal in *Re Whitrick, Sutcliffe v. Sutcliffe and Others* ([1957] 2 All E.R. 467). Delivering the leading judgment, Jenkins, L.J., said:

"The reading of words into a will as a matter of necessary implication is a measure which any Court of construction should apply with the greatest caution. Many wills contain slips and omissions and fail to provide for contingencies which, to anyone reading the will, might appear contingencies for which any testator would obviously wish to provide. The Court cannot rewrite the testamentary provisions in wills which come before it for construction. This type of treatment of an imperfect will is only legitimate where the Court can collect from the four corners of the document that something has been omitted and, further, collect of sufficient precision the nature of the omission."

The testatrix in *Re Whitrick*, having first left the whole of her estate to her husband and appointed him sole executor, then provided: 'In the event of my husband . . . and myself both dying at the same time then and in that case the following provisions shall apply namely . . .'. Then followed the appointment of one of the sisters of the testatrix as sole executrix and trustee, the gift to her of the whole estate upon trust for sale, and provision for the distribution of the proceeds of sale in equal shares amongst that sister, another sister and a nephew of the testatrix. The testatrix survived her husband, who had left a will containing a clause in exactly the same terms as that quoted above. Since, according to the literal meaning of the language of the testatrix's will, there was only a disposition in the event of both the testatrix and her husband dying at the same time,

it followed that unless words could be inserted by the Court the testatrix died intestate as to the whole of her estate.

The Court of Appeal found it impossible to believe that the testatrix, in making alternative provision for her husband surviving her, intended to make that provision operative only in the event of herself and her husband dying at the same time, an event extremely unlikely to happen. Their lordships were satisfied that the testatrix intended to provide, not only for the contingency of her husband and herself dying at the same moment, but also of her husband predeceasing her, and, accordingly, that words giving that effect to her will should be supplied.

Unregistered Company: Form of Winding-up Order

In Re Hibernian Merchants Ltd ([1957] 3 All E.R. 97) a creditor petitioned under Section 399 (1) of the Companies Act, 1948, for the compulsory winding-

up of a company incorporated in the Republic of Ireland and having a place of business and assets in Great Britain which was an unregistered company within that subsection. On the hearing of the petition the question arose whether there should be inserted in the winding-up order the words:

"That the liquidator shall not act in pursuance of the order except for the purpose of getting in the English assets and settling a list of the English creditors without applying to the Court for directions."

Roxburgh, J., held that it was not desirable that such a limitation should be inserted in the order but that there was nothing necessarily *ultra vires* in the form of order proposed provided that it was construed, not as limiting in any way the effect of the order, but as reserving specially to the Court matters in respect of which a liquidator is always at liberty to apply to the Court under the general law if he desires to do so.

Taxation Cases

A full report of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

Ceylon Commissioner of Income Tax (Speldewinde) v. Peiris

In the Privy Council - October 2nd, 1957

(Before Earl JOWITT, Lord RADCLIFFE, Lord TUCKER, Lord DENNING and the Right Honourable L. M. D. DE SILVA)

Income tax - Business - Cessation - Assessment of income of previous year - Death of taxpayer - Whether a cessation - (Ceylon) Income Tax Ordinance (Legislative Enactments of Ceylon, 1938, Chapter 188) Sections 5, 6 and 11.

The respondent was the executor of Mrs N. C. Peiris, who had carried on an agricultural business and had died on October 23rd, 1951. An assessment to income tax was made on the respondent under Section 11 (6) of the (Ceylon) Income Tax Ordinance, for the tax year April 1st, 1950, to March 31st, 1951, in respect of Mrs Peiris's actual income for that year, instead of her income for the preceding year of account.

It was contended for the appellant that on her death on October 23rd, 1951, Mrs Peiris ceased to carry on or exercise her business within the meaning of Section 11 (6) of the Income Tax Ordinance, and that, therefore, the income of the preceding year should be computed on the amount of profit of that year. It was contended on behalf of the respondent that the death of Mrs Peiris did not constitute a cessation of the business for the purpose of Section 11 (6) of the Ordinance, but was an event specifically dealt with by Section 11 (9), which did not provide

for such a computation of the income of the preceding year.

Held, that the appellant's contention was correct

Tanganyika Commissioner of Income Tax v Williamson Diamonds Ltd

In the Privy Council - October 2nd, 1957

(Before Lord TUCKER, Lord DENNING and the Right Honourable L. M. D. DE SILVA)

Income tax - Undistributed income of company - Losses - Smallness of profits - Matters to be considered - Tanganyika Income Tax (Consolidation) Ordinance 1950 (No. 27), Section 21.

The respondent was a large shareholder in a company which, for the accounting period ended December 31st, 1950, did not declare a dividend. The Commissioner of Income Tax made an order under Section 21 (1) of the Tanganyika Income Tax (Consolidation) Ordinance, 1950, that 60 per cent of the company's total income should be deemed to have been distributed among the respondent and the other shareholders. The respondent contended that the Commissioner had failed to take into account the capital losses, which, it was alleged, the company had sustained.

Held, (1) that the respondent had failed to show that the company had sustained a loss of any kind (2) that the word 'losses' in the section did not include capital losses; (3) but that in considering whether the payment of a larger dividend would have been unreasonable the Commissioner was bound to take into account all relative matters including any capital losses.

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Inflation and Replacement Costs

SIR, - In his paper in your issue of November 9th, Mr C. D. Hellyar, F.C.A., discusses the controversial question of inflation and higher replacement costs. I should like to contribute some observations on this subject.

Practically, the essence of the problem is that it is not really a case of providing for a loss (e.g. through depreciation) at all, but of providing the extra capital nowadays required to run a business, because of inflation. The former is pure, straightforward accounting; the latter mixed accounting and economics.

Granting this, however, writers on this subject (as indeed Mr Hellyar) frequently disarm themselves by professing they are not economists; yet nevertheless go on, with strong feelings, to reach their conclusions without economics.

It is the sort of problem, however (e.g. 'imponderable') which does not lend itself to a purely accounting solution. We have probably got to do the best we can about it, e.g. by traditional methods of gradualness, avoiding sudden and violent change. In the private sector, so far as extra replacement costs are concerned, inflation does tend to provide its own natural remedy through the inflated profits which accrue almost gratuitously to business. Kept in the business, these are probably often enough to finance each successive year's instalment of extra replacement cost, until by gradual dilution the change from the original to present-day price levels is accomplished. This, however, does not apply to nationalized industries, where the profits are fixed by budgeting. In this case the natural thing is to provide the extra capital in the conventional way. There is probably more to be said for this than against it, if the matter is fully thought out.

The practical answer to Mr Hellyar's points is perhaps as follows:

- (1) Businesses should, of course, retain the inflated profits they are making to provide the extra capital nowadays required to run the business. This, however, is not 'depreciation'; it is simply the normal accumulation of capital out of savings (i.e. taxed profits). In practice, it will probably provide enough for their yearly requirements for replacements.
- (2) The traditional accounting rule is surely concerned with preserving the *original* capital. There never has been a traditional or accepted view that you have got deliberately to fix your selling prices so as to raise additional capital to compensate for a change in the value of money, as if it were a trading loss or expense. The same is true of practical economics, the contrary view belonging to 'ideal' theory (e.g. an economy

fully based on a price index) not at present seriously contemplated.

- (3) Mr Hellyar criticizes the policy of nationalized industries on replacement costs, but does not state his precise grounds. He does not, for instance, show why he thinks it is better to make the public pay more in order to provide the extra capital required, rather than to raise it from the capital market. The former method incidentally attracts an extra tax stage.
- (4) The views he quotes of Mr P. T. Menzies, Financial Director of Imperial Chemical Industries Ltd also seem to belong to an 'ideal' economy different from the one that actually exists at the present time.

Yours faithfully,

W. F. F. BENTLEY,

B.COM., A.A.C.C.A., F.S.S., F.R.ECON.S.

Epsom, Surrey.

Valuation of Debts: The 'Nottingham Scheme'

SIR, - In *The Accountant* of November 2nd, page 508, there is a reference in Mr Romer-Lee's paper on 'Verification of assets', to the 'Nottingham scheme' as being a formula approved by the Inland Revenue authorities for the general valuation of instalment debts.

The writer will be grateful for any detailed information which you can give him concerning the 'Nottingham scheme' and the method of its application to instalment debts.

Yours faithfully,

London, NW10.

L. W. J. WARREN.

[Mr C. Romer-Lee writes: A scheme of bad debt valuation for credit drapers known as the 'Nottingham scheme' (official form 189) was issued by the Inland Revenue in 1928.

The scheme relates to debts where the period of credit given to the customer (excluding any period of grace) does not exceed forty weeks. The basis of valuation is as follows:

- (1) where a sale of goods was made on an account during the last thirteen weeks prior to stock-taking, the whole amount of the account shall be taken as good, that is the debt will be valued at 20s in the £.
- (2) where no sale took place but cash was received during the above-mentioned thirteen weeks the valuation of the balance of the debt outstanding at the date of stock-taking shall be either:
 - (a) 20s in the £ on the amount outstanding; or
 - (b) the total amount of the cash received in respect of the account during the twelve months preceding the date of stock-taking; whichever is the lower.
- (3) All other debts shall be regarded as of no value.

There are other provisions relating to the recovery of bad debts, the sale of debts, the computation of the first year's assessment and the accountant's certificate.]

'Pestilential Profit'

SIR, - The 'Pestilential Profit' question¹ requires close study of thoughts on the shop floor.

As the British Institute of Management's research project found, a very small proportion of industrial employees wish to know the facts on profits. Personally I quote a round figure of 10 per cent for the exceptions. The B.I.M. sample gave a more precise and slightly smaller figure.

To those who budget by the week an annual account, however presented, is as lacking in reality as a fifty-year account would be to most of us.

All money figures of £100,000 and over are equal. The rules of arithmetic, so dexterously applied by 'chalks' to the dart-score, cease to function, a little above the level of the top pools prize, and a strange emotional seize-up takes place as soon as a million pounds is mentioned.

At the works gate 'profits' is often an expletive having as little to do with accounts as 'damn' has with the after-life. But it is also a loyalty-signal by which a man shows his workmates that he is solid with them. When people are faced with a clash between truth and loyalties they usually give priority to the loyalties.

What the ordinary man does know about profits is that they are quoted by union negotiators in wage claims. Facts which threaten the myth that profits 'go to the employers', can appear to threaten basic assumptions of claims. Such facts can be as unwelcome on the shop floor as facts about the weight of Sputnik II elsewhere.

When a man denounces 'profits', he is rarely aiming at the company he works for. He has in mind a remote 'they' who run the system. It is a case of Tartarin de Tarascon's 'ils' - the sinister giants always imminent but never present, who provide the basis for a sense of mission.

Much of the financial information that has been supplied to employees is irrelevant to the questions and beliefs in their minds. The information, for instance, that the dividends are only £900,000 has its own significance to people who believe that those dividends go to nine directors.

I wonder what effect people expect to have by a long argument which roughly knocks one of six noughts off a figure and ends with some such phrase as 'only £900,000'. How does that help a man who thinks it is a racket? He never was fussy about the number of noughts.

Rarely does any statement of fact alter a traditional group attitude. Most facts prove another grievance. The answer, for instance, to facts about overheads given to dispel one error is 'too many non-producers whom we, the production-line carry'. One must be there, on the spot, to follow this chain of thought. It can have many links.

It is possible, however, to isolate key assumptions

on which the attitude is based. A vital one is that 'we and our kind are excluded by circumstances from the dividends'. This, in an age in which employees' pension funds covering 5 million receive the dividends, tax free, on hundreds of millions of pounds' worth of company shares!

It is also possible to discover by observation of results that some ways of teaching are better than others. There are grounds for saying that the elements of company finance are better understood through a simple costing of a specific product, than by a simplified annual expenditure account.

But the most staggering discovery of copious modern research is that for a difficult act of persuasion it is not a bad idea to start by understanding the other fellow's point of view. This may mean going to the extreme lengths of meeting him, and (so far from 'driving home facts' at him) listening to him long, hard, and often. That, in itself, may heal many of his harsher and more erratic thoughts and give him a better appetite for facts.

Yours faithfully,

HENRY SNELL,

Industrial Survey Director,
THE ECONOMIC LEAGUE.

London, SW1.

Directors' Expenses

SIR, - The letter from Messrs Francis Kaye & Co published in your issue of November 23rd, resurrected all the doubts and difficulties which have assailed me since the form P.11.D first appeared. Some of these doubts may be illustrated by a series of questions based on the following imaginary incident.

A company receives a complaint from an important customer, situated 100 miles away, that a machine he has recently bought is functioning very unsatisfactorily; he seems very cross and decisive, and prompt action is called for. What entries should subsequently be made on a form P.11.D if:

- (a) A director immediately makes a trunk call from the company's offices, elucidates the reason for the machine's misbehaviour and completely mollifies the customer?
- (b) The same director telephones the customer from his home, confirms the charge for the call, and secures reimbursement, against a signed and detailed chit, countersigned by another director or company official, from the cashier?
- (c) Is driven in a company car to the customer's place of business, where the matter is amicably settled?
- (d) Undertakes the same mission on his own car (and on his own initiative), securing reimbursement of actual cost of petrol, or on a mileage basis identical with a scale applying to the company's ordinary employees?
- (e) Undertakes the journey in a car specifically hired by the company for the purpose, the hire costs being debited to the company and discharged by the company?

Is any answer to any of the above questions?

¹ See article by S. J. McAdden, M.P., in November 2nd issue and 'Correspondence' in subsequent issues.

modified if, instead of taking emergency action on his own initiative, the director, being unwilling to face the terrors of form P.11.D, attempts to transfer the responsibility to some other director or employee, but is instructed to perform this duty by the resolution of a full board meeting at which his objections are outweighed by superior voting power?

Yours faithfully,
AWL.

Football Pool: Accounting Procedure

SIR, - We are advising a client regarding the inception of a football pool, with particular reference to accounting procedure and security measures.

We would be grateful if readers could suggest any suitable system dealing with the relevant points or who could advise us as to the appropriate procedure.

Yours faithfully,
J. W. C.

HOSPITAL FINANCE OFFICERS' CONFERENCE

The annual conference of the Association of Chief Financial Officers in the Hospital Service in England and Wales was held at the Connaught Rooms, Kingsway, London, on November 14th and 15th, under the chairmanship of Mr A. E. Hall, F.I.M.T.A., A.S.A.A.

The first session was devoted to a survey of the hospital service in Sweden given by Mr F. Lindencrona, Barrister-at-Law, Secretary of the Swedish Hospital Association.

Mr Lindencrona told an interested audience that, in Sweden, over-spending by local authority hospitals are readily met by additional grants from the county council. But, in the case of State hospitals, supplementary sums are not so readily forthcoming. Expenditure is analysed subjectively and the accounts are audited by one or more professional accountants. He said that the hospital service in Sweden was interested in the possibility of introducing costing but there was a fear of enlarging staffs. He expressed the opinion that cost consciousness must be encouraged, particularly in the hospital, because costs had now reached such high levels. Furthermore, cost consciousness was demanded by the financial situation of the country and the urge to maintain full employment.

Answering questions from the audience, Mr Lindencrona said that as Sweden enjoyed the highest standard of living in Europe and its people were accustomed to having most social services gratis, there had not been the same interest in the cost of the hospital service as in Britain. On the question of a Government audit designed to ensure the correct disposition of Government grants, Mr Lindencrona said that, apart from the local audit and subject to an annual report on the hospitals, the matter of a central follow-up on grants was never discussed in Sweden. He also explained that the Swedish equivalent of the National Insurance contribution is a percentage of the payroll total so far as the employer is concerned, and the worker pays a sum graded according to income. The State supplements these sums.

Hospital Accounts

At the session held on November 15th, Mr C. Montacute, LL.B., D.P.A., F.I.M.T.A., F.M.A., finance officer to a group of hospital management committees in the Cheltenham area, addressed the conference on 'The contribution of financial administration to hospital management'.

Tracing the development of accountancy from the limited sphere of book-keeping to the later techniques of providing management with a dynamic picture of present activities and a fairly reliable forecast of the future, he drew attention to the opportunities of this,

the second industrial revolution, to increase yet further the contribution to administration which finance can make. The basic function of keeping the accounts in the hospital service has to be done, and the more efficiently it is done the more effectively will the service work. Thus, he said, an efficient pay section, with its direct impact on the staff, can make an important contribution to staff welfare and management. In addition, internal audit, by minimizing the occasional frauds which get Press publicity, causing repercussions far beyond the financial side of the service can, if sensibly and reasonably conducted, contribute to efficient management and help to establish public confidence in the financial administration.

Turning to hospital costing, the speaker stated that if current hopes are justified, costing will make a major contribution to management, provided interpretation and use of the figures reach the required standard. He referred to the need to increase cost consciousness in the service.

Annual Financial Surveys

Mr Montacute emphasized that the training of the chief financial officer and his special ability to interpret and act upon the data produced under his control were a vital factor in control. Policy must have a better basis than hunches and advice formulated from factual information must be presented in intelligible form and at the right time to policy-making bodies. He expressed the view that yearly financial surveys of the hospital service in the local area create added interest in the hospitals and assist in management. He added that finance should obviously not be the only factor in making policy and should be used as a guide to, rather than a control over, operations, and should be a positive contribution rather than a negative one. Whilst the independence of financial advice must be preserved and encouraged, at the same time a free flow of thought between the chief financial officer and the chief administrative officer and others must be maintained. On the subject of the policy-making bodies in the service, Mr Montacute suggested that more accountants and business men might be included in the membership with advantage.

Drawing the attention of his colleagues to the scope for local 'self-help' organization and methods investigations, Mr Montacute said that he felt confident that the initiative and the necessary width of experience were available in most groups. Further fields of contribution which financial administration could make might well be sought by a programme of research including objective accounts, provision of balance sheets, standard costing and simplified inventory control.

DINNER IN MANCHESTER

Manchester Society of Chartered Accountants

About 300 members and guests attended the annual dinner of the Manchester Society of Chartered Accountants at *The Midland Hotel*, Manchester, on Thursday of last week. Mr A. H. Walton, F.C.A., President of the Manchester Society, presided, and with the Lord Mayor and Mr W. H. Lawson, C.B.E., B.A., F.C.A., welcomed the guests on arrival.

Proposing the toast of 'The City and Trade of Manchester', Mr Walton welcomed the Lord Mayor, Alderman Leslie Lever, J.P., M.P., LL.B., and Judge Sir Basil Nield, C.B.E., Q.C., Recorder of Manchester.

The City's Heritage

Speaking of the City's heritage, he referred to the Hallé Orchestra and its conductor, Sir John Barbirolli, and then asked that if the Manchester Ship Canal was a great achievement in the 1890s, was not the airport in Cheshire equally important in the 1950s? If the Lancashire cricket ground was 'under the weather', would not the great telescope at Holmes Chapel rise above it? (*Laughter and applause.*)

Those present at the dinner were largely business men who were well fitted to talk about trade. Manchester was known for things other than textiles. The City was noted for its engineering, for aircraft, for locomotives and for milling and a thousand and one trades.

Responding to the toast, the Lord Mayor said he was very proud of the great place the City held in the education of its citizens and of its world-wide reputation. Manchester was really the hub of a great community.

The University was being extended and this provided opportunities for men and women to come from all parts of the world to gain further knowledge.

He knew theirs was a very harassed profession but he was sure that chartered accountants were rendering a great and valuable service to the nation.

Judge Sir Basil Nield, proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said he regarded it as a high compliment to be asked to propose it, for he was of the opinion that professional organizations with objects such as those of the Institute were of the greatest value and importance. Observing that the Manchester Society was only a year younger than the Institute, Sir Basil said that one of the most outstanding events in the accountancy field was the alliance of the Institute and The Society of Incorporated Accountants.

Manchester's Examination Successes

Responding to the toast, Mr Lawson congratulated Manchester on its successes in the Institute's examinations in recent years. He went on:

'Two graduates of Manchester University have obtained first places in our Final examination during the past four years and a number of other Manchester candidates have figured in the small list of those placed in order of merit in the Final examination. I have no doubt that these successes owe something to the special courses arranged by the Manchester Student's Society.'

Emphasizing the value of university training, Mr

Lawson stated that about 10 per cent of those at present under articles had received a university training. He continued:

'We find that, in general, those who have been to the universities are better equipped to take advantage of our training than those who have come straight from school. The reduction of the period of articles from five years to three years in favour of university graduates has proved in practice to be fully justified. University graduates also tend to do better in our examinations.'

Tribute to the Institute's Staff

Referring to integration, Mr Lawson commented on the work involved in bringing 'the members of the Society into our life and activities as quickly as possible'.

'I should like members to know that the scheme involves a tremendous administrative task for our relatively small staff at the Institute. It is a very heavy task to bring into our membership about 10,000 new members at one time and to register an almost equal number of new students. Our staff are doing a wonderful job and I hope that members will bear this in mind and spare them from unnecessary inquiries during the next few months.'

Mr Walton read a telegram of good wishes which had been received from Mr D. G. Bee, F.C.A., who had been obliged by ill health to resign the presidency of the district society, and the evening concluded with a vote of thanks to Mr Walton, proposed by Mr J. Howard Bell, B.A., F.C.A., which was received with acclamation.

The Guests

Among the guests there were:

Messrs A. Baillie (*H.M. Principal Inspector of Taxes*); S. G. Barker (*Chairman of Council, Manchester and District Bankers' Institute*); R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*); J. H. Dafforne, F.C.I.S., A.I.A.C., F.H.A. (*Chairman, Manchester and District Branch Chartered Institute of Secretaries*); F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); F. T. W. Doy, A.C.I.I. (*President, Insurance Institute of Manchester*).

Messrs D. P. Hilton, M.B.E., B.A. (*President, Manchester Law Society*); T. Hodgson, F.S.A.A. (*President, Incorporated Accountants' Society of Manchester and District*); P. D. Irons, B.COM., A.C.A. (*President, South Eastern Society of Chartered Accountants*); C. V. Jarvis, J.P., F.A.C.C.A. (*President, The Association of Certified and Corporate Accountants Manchester and District Society*); The Very Rev. H. A. Jones, B.Sc. (*Dean of Manchester*); Messrs S. Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); R. D. Lea, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*).

Mr Alan S. MacIver, M.C., B.A. (*Secretary of the Institute*); Col. W. M. Musgrave-Hoyle, M.C., T.D., D.L. (*Chairman, Manchester Stock Exchange*); Messrs F. Rostrom, M.B.E., M.I.E.E., M.I.E.X. (*President, Manchester Chamber of Commerce*); D. Steele, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); J. C. G. Sutton, T.D., F.R.I.C.S., F.A.I. (*Chairman, Chartered Auctioneers' and Estate Agents' Institute, Manchester and District Branch*); C. C. Taylor, J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); Arthur E. Webb (*Editor, 'The Accountant'*); E. K. Wright, M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*).

ENGLAND'S OLDEST ACCOUNTANCY SOCIETY

Liverpool Chartered Accountants' Dinner

The annual dinner of the Liverpool Society of Chartered Accountants was held at *The Adelphi Hotel*, Liverpool, on Friday, November 22nd.

The company of over 400 members and guests was received by Mr C. C. Taylor, J.P., F.C.A., President of the District Society, and by Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute. Among the guests were Lord Pakenham, P.C., Sir Anthony J. Elkins, C.B.E., Alderman Frank Cain, Lord Mayor of Liverpool, Mr Bertram Nelson, C.B.E., J.P., F.S.A.A., Mr John Ainsworth, M.B.E., M.COM., F.S.A.A., F.I.M.T.A., and

Messrs T. Alker, LL.M. (*Town Clerk of Liverpool*); J. F. Allan, F.C.A. (*Vice-President, Liverpool Society of Chartered Accountants*); E. L. Ashton, B.A., F.C.A. (*President, Liverpool Chartered Accountants' Students' Association*); H. L. Bowes, C.B.E. (*Chairman, Incorporated Chamber of Commerce of Liverpool*); Mrs B. Bramwell McCombe, M.A., B.COM., F.S.A.A. (*Joint Secretary, Incorporated Accountants' District Society of Liverpool*); Messrs C. S. Brown, F.R.I.C.S. (*Chairman, Royal Institution of Chartered Surveyors, Lancashire and Cheshire Branch*); G. Castell, F.A.C.C.A. (*President, Certified and Corporate Accountants, Liverpool Branch*); R. A. Chermiside, F.C.A. (*President, Bristol and West of England Society of Chartered Accountants*); R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*).

Messrs F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); H. Duthie, F.C.I.S. (*Chairman, Liverpool and District Branch, Chartered Institute of Secretaries*); G. English, A.S.A.A. (*Joint Secretary, Incorporated Accountants' District Society of Liverpool*); A. K. Ferguson, A.C.A. (*Official Receiver in Bankruptcy*); P. G. Gadd, J.P., F.C.A. (*Chairman, Chester and North Wales Branch, Liverpool Society of Chartered Accountants*); H. W. Harper, F.R.I.C.S. (*President, Chartered Auctioneers and Estate Agents, Liverpool and District and North Wales Branch*); J. L. Hughes, F.S.A.A. (*Treasurer, Incorporated Accountants' District Society of Liverpool*); P. D. Irons, B.COM., F.C.A. (*President, South Eastern Society of Chartered Accountants*).

Messrs A. J. Jenkins (*Director, National Bank Ltd*); J. D. Kewish, T.D., D.L. (*President, Incorporated Law Society of Liverpool*); S. Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); N. J. Knights (*H.M. Principal Inspector of Taxes*); A. S. MacIver, M.C., B.A. (*Secretary of the Institute*); A. S. Mountfield (*General Manager and Secretary, Mersey Docks and Harbour Board*); F. Neatham, F.C.A. (*Chairman, South Lancashire Branch, Liverpool Society of Chartered Accountants*); C. Pearson, F.C.A., F.S.A.A. (*President, Incorporated Accountants' District Society of Liverpool*); T. C. Roberts (*President, Liverpool and District Bankers Institute*).

Messrs G. F. Saunders, J.P., F.C.A. (*Member of the Council of the Institute*); G. B. Souster, F.C.W.A. (*President, Institute of Cost and Works Accountants, Liverpool Branch*); D. Steele, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); R. M. Synge, M.C. (*Chairman, Liverpool Stock Exchange*); A. D. Walker, J.P., F.C.A. (*Member of the Council of the Institute*); A. H. Walton, F.C.A. (*President, Manchester Society of Chartered Accountants*); H. A. Woodall (*President, Insurance Institute of Liverpool*); E. K. Wright, M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*).

The Wheel Turns Full Circle

Proposing the toast of 'The Guests', Mr Taylor said

that in 1870 the Incorporated Society of Accountants in Liverpool was formed. Today the wheel had turned full circle, and the incorporated accountants there were to be incorporated into the local society of chartered accountants. Liverpool was particularly honoured, he said, that two of their most prominent incorporated accountants, Mr Bertram Nelson, a former President, and Mr John Ainsworth, the City Treasurer, were to be elected to the Council of the Institute.

Responding to the toast, Mr Nelson said that he and his fellow incorporated accountants were conscious of the honour of becoming chartered accountants. The Liverpool Society of Chartered Accountants was the oldest body of accountants in the country. It was first formed in 1870 as the Incorporated Society of Liverpool Accountants, but ten years later it joined with societies in London, Manchester and Sheffield and formed the Institute of Chartered Accountants.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Lord Pakenham congratulated the Institute which, with its new members, would be over 30,000 strong, and probably the largest professional body in the accountancy world.

He thought opportunity in the country and in the world was never greater than it was today. There was room for even more enterprise and expansion and not less, as some would say. Accountancy taught one to look for the naked truth and to achieve a greater degree of objectivity. It was objectivity that we should cultivate, and all emotion should be thrown aside.

'It is true that we have much to be grateful for to our friends in the United States, but it is important to keep in mind that we have a greater measure of maturity to contribute to the world,' he said.

Age of Specialization

In his response to the toast, Mr Lawson said one advantage of the integration of the Institute and the Society was that it would facilitate the amalgamation of small firms.

'With the continued growth in the scope of the accountant's duties and the variation of services which he is expected to provide for his clients, the task of the sole practitioner is becoming increasingly difficult. Whether we like it or not, this is an age of specialization and a combination in one firm of those who are experts in different branches of our work has many advantages.'

The main purpose of integration was to provide the best possible service for the public. There would be no relaxation of the standard of general education required before articles are entered into, or of the Institute's examinations which have to be passed before admission.

A toast to 'The City and Trade of Liverpool' was proposed by Sir Anthony Elkins, chairman of Bryant & May Ltd. Responding, the Lord Mayor said that social security was something all in Liverpool were grateful for, and both the city and country were proud of achieving it. Accountants by their contribution to industry, commerce and trade, were in no small way responsible for this achievement.

SEVENTY-FIFTH ANNIVERSARY DINNER

The Birmingham Chartered Accountant Students' Society

There were 350 members and guests at the seventy-fifth anniversary dinner of The Birmingham Chartered Accountant Students' Society held at *The Grand Hotel*, Birmingham, on Friday, November 22nd.

The company was received by Mr S. V. Lancaster, T.D., J.P., F.C.A., President of the Society, together with Mr W. E. Parker, C.B.E., F.C.A., a member of the Council of the Institute, and among those present were Alderman J. C. Burman, J.P., a former Lord Mayor of Birmingham; Mr W. L. Barrows, J.P., F.C.A., Vice-President of the Institute; Mr Stanley Dixon, M.A., A.C.A., Mr T. E. Hurst, and

Messrs R. R. Adam (*Chairman, Worcestershire County Council*); R. P. S. Bache (*President, Birmingham Chamber of Commerce*); Miss L. Barker (*Hon. Secretary, Association of Certified and Corporate Accountants' Birmingham and District Students' Society*); Messrs T. A. Hamilton Baynes, J.P., M.A., F.C.A. (*Member of the Council of the Institute*); P. Chapman (*Assistant Editor, 'The Accountant'*); J. Cooper (*Hon. Secretary, Birmingham Law Students' Society*); Prof. Donald Cousins, B.COM., A.C.A. (*Professor of Accountancy, University of Birmingham*); Mr D. C. Crombie, T.D., F.C.A. (*District Inspector of Taxes, Birmingham 1st District*).

Messrs H. A. L. Dawes (*Committee Member, Birmingham Chartered Accountant Students' Society*); G. Le B. Diamond, C.B.E., M.I.MECH.E. (*Chairman, West Midlands Gas Board*); Denis F. Dodd, T.D., F.C.A. (*Vice-President, Birmingham and District Society of Chartered Accountants*); E. J. Dodd, C.B.E. (*Chief Constable, City of Birmingham*); C. H. C. Edwards (*Hon. Secretary, Birmingham Chartered Accountant Students' Society*); The Very Reverend L. M. Charles Edwards (*Bishop of Worcester*); Mr W. Charlton Edwards, F.C.A.

Messrs H. James Gittoes, J.P., F.C.A. (*Chairman, Joint Lecture Committee*); J. F. Gregg, LL.M. (*Town Clerk, City of Birmingham*); Mrs J. Harrison (*Acting Clerk to Committee, Birmingham and District Society of Chartered Accountants*); Messrs Eric Hemsoll, M.C.; H. N. Iley (*Area Representative, Midland Bank Ltd*); N. G. Lancaster, M.B.E., A.C.A.; A. S. Maddison, F.C.A. (*Vice-President, Birmingham Chartered Accountant Students' Society*); A. A. Miller, M.C., F.C.A.

Messrs E. J. Newman, M.A., F.C.A. (*Hon. Secretary, Birmingham and District Society of Chartered Accountants*); W. A. Nicol; M. W. Russell (*Member, Chartered Accountant Students' Society of London*); W. G. A. Russell, F.S.A.A. (*Member of the Council, The Society of Incorporated Accountants*); D. M. Sinclair, C.B.E.; B. W. Sutherland, A.C.A. (*Hon. Secretary, Joint Lecture Committee*); D. C. Wasdell (*Hon. Treasurer, Birmingham Chartered Accountant Students' Society*); C. Wheatley, F.S.A.A. (*Hon. Secretary, Incorporated Accountants' Birmingham and District Students' Society*).

Integrity and Efficiency

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Alderman Burman said that the Institute had created for itself a powerful and influential position in the commercial life of the country. Such happenings did not come about by accident, he said; they came rather through the exercise of the undoubted integrity and efficiency in all that the Institute did. He added:

'If this is so - and I believe it is - then as chartered accountants you have created for yourselves a very enviable position. It is one which will take all the courage of the coming generation to maintain.'

Responding to the toast, Mr Parker said it gave him

great personal pleasure that the President, Mr Lancaster, was able to preside over the dinner, for they had served together in earlier years after qualifying.

Mr Parker said that chartered accountants began where the book-keepers left off, and continued:

'We have got to try somehow to present to the public that is interested, in so far as it is possible to do so by means of accounts, a significant and intelligent portrayal of the figures with which we are dealing.'

'One has got to be alive and look around, and one has got to form one's own mental picture of the undertaking one is trying to portray. One has to get into the minds of the management and understand them. That calls for a great deal more than a mere expertise with debit and credit. It calls for judgment, for an understanding of human nature, for an ability to spot and grasp the core of the problem, and in our job it requires lots of tact and common sense.'

Mr Parker added a word of warning, saying: 'Even if you have all these qualities, you won't get very far without a really good command of the English language.'

Three Qualities

Proposing the toast of the Students' Society, Mr Stanley Dixon told students to use their imagination and not just stick to the textbook answer. He listed three qualities as most necessary in a chartered accountant. First, friendliness - the ability to get on with people, the ability to be sympathetic with them. Secondly, a sound, a wise judgment. Third, and most important, integrity - the knowledge that when a chartered accountant says or writes a thing, he believes to the best of his ability that that is true, even if it is to his own detriment.

Mr C. H. C. Edwards, honorary secretary of the Students' Society, responded, and said that all students were looking forward to the coming integration with every confidence, in the knowledge that it would increase the strength of the profession.

Mr D. C. Wasdell, honorary treasurer of the Students' Society, proposed the toast of 'Our Guests', and Mr T. E. Hurst, a member of the local committee of Lloyds Bank, responded.

The toast of 'The President' was wittily proposed by Mr H. A. L. Dawes, a committee member of the Society, who said that Mr Lancaster had been to the Students' Society what the earth had been to its satellites. 'However much we gravitate,' he said, 'we are eventually brought down to earth.'

Replying, the President paid tribute to the high standard of speeches made by the students, saying they had well and truly lived up to the high example handed down by their predecessors.

Speaking of the great amount of work involved in the forthcoming integration, Mr Lancaster said it had been approached with great efficiency, and in the most commendable spirit, by all concerned.

Mr Lancaster said that the office of President fell into that general category which could be labelled 'a pleasant honour'. The students' keenness and their sparkling sense of humour were a real tonic to those of an older generation. He concluded: 'I remain full of confidence in the future of our profession, which in due time will be in the hands of our students of today.'

New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective. Copies of either may be obtained through Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

STATUTORY INSTRUMENTS

The Foreign Compensation (Poland) (Debts) (Amendment No. 2) Order, 1957

(S.I. 1957 No. 1366)

This Order amends the Foreign Compensation (Poland) (Debts) Order, 1956:

- (i) by providing a more specific definition of a 'debt' for the purposes of the Order and by giving the Commission discretion to entertain, beyond the time limit originally specified in the Order, applications relating to debts as now defined;
- (ii) by including in the definition of 'British nationals' in Article 7 of the Order persons who are (or would have been had the Southern Rhodesian Citizenship and British Nationality Act, 1949, been in force at the relevant date) citizens of Southern Rhodesia.

Price 3d net.

August 8th, 1957.

The Foreign Compensation (Poland) (Nationalization Claims) (Amendment No. 2) Order, 1957

(S.I. 1957 No. 1367)

This Order amends the Foreign Compensation (Poland) (Nationalization Claims) Order, 1956, by enabling applications under the Order to be made by citizens of Southern Rhodesia, and by including as British property, for the purposes of the Order, property owned or held by persons who were, or would have been (had the Southern Rhodesian Citizenship and British Nationality Act, 1949, been in force at the relevant date) citizens of Southern Rhodesia.

Price 3d net.

August 8th, 1957.

The Double Taxation Relief (Estate Duty) (Pakistan) Order, 1957

(S.I. 1957 No. 1522)

Article IV of the double estate duty agreement with Pakistan which is scheduled to this Order provides a code of rules for determining the situs of the categories of property which may pass on the death of a person who dies domiciled in either country. The code of rules does not apply where the effect of applying it would be to bring within either country's charge to duty property which, apart from the code, would be outside the charge of the country in question (paragraphs (2) and (3) of Article III).

For cases in which duty is charged by both countries, Article VI provides a system of 'credits'. Where property has a situs in one country and not in the other, the country of situs will retain its duty and the other country will allow a 'credit' (paragraph (1)); otherwise both countries will allow 'credits', the sum of which will eliminate the smaller of the two duties (paragraph (2)).

Provision is made for the exchange of information between the taxation authorities of the two countries.

The agreement applies to the estate duty (separate from British estate duty) which is imposed in Northern Ireland.

The agreement is effective as regards the estates of persons who die on or after the date when it comes into force. But provision is made for the agreement to be applied to the estate of a person who dies before the agreement comes into force and after December 4th, 1951, if the accountable person so elects.

Price 5d net.

August 23rd, 1957.

The Premium Savings Bonds (Amendment) Regulations, 1957

(S.I. 1957 No. 1733)

These Regulations amend the Premium Savings Bonds Regulations, 1956, by substituting a new paragraph for paragraph (2) of Regulation 4, which applied Section 82 of the Bills of Exchange Act, 1882, to warrants issued by the Postmaster-General under the Regulations. That section, which provides for the protection of collecting bankers, is repealed by the Cheques Act, 1957, with effect from October 17th, 1957, and replaced by the provisions of Section 4 of that Act. The new paragraph accordingly applies the latter provisions.

Price 3d net.

October 17th, 1957.

The Savings Certificates (Amendment) Regulations, 1957

(S.I. 1957 No. 1734)

These Regulations amend the Savings Certificates Regulations, 1933, by substituting a new paragraph for paragraph (2) of Regulation 6, which applied Section 82 of the Bills of Exchange Act, 1882, to warrants issued by the Postmaster-General under the Regulations. That section, which provides for the protection of collecting bankers, is repealed by the Cheques Act, 1957, with effect from October 17th, 1957, and replaced by the provisions of Section 4 of that Act. The new paragraph accordingly applies the latter provisions.

Price 3d net.

October 17th, 1957.

The Post Office Register (Amendment) Regulations, 1957

(S.I. 1957 No. 1764)

These Regulations amend the Post Office Register Regulations, 1925, by substituting a new paragraph for paragraph (3) of Regulation 26, which applied Section 82 of the Bills of Exchange Act, 1882, to warrants issued by the Postmaster-General under the Regulations. That section, which provides for the protection of collecting bankers, is repealed by the Cheques Act, 1957, with effect from October 17th, 1957, and replaced by the provisions of Section 4 of that Act. The new paragraph accordingly applies the latter provisions.

Price 3d net.

October 17th, 1957.

Notes and Notices

PERSONAL

MESSRS COOPER BROTHERS & Co, COOPERS & LYBRAND, and the old-established firm of DESPACHO ROBERTO CASAS ALATRISTE announce that they have formed the Mexican firm of COOPERS & LYBRAND, with offices at Av. Hidalgo 5.9° Piso, Mexico City.

MESSRS COLE, DICKIN & HILLS, Chartered Accountants, of 18 Essex Street, Strand, London, WC2, announce that they have admitted to partnership Mr PETER T. JOHNSTONE DODD, A.C.A., the son of their senior partner.

MESSRS L. LAVY & Co, Chartered Accountants, of Imperial House, Dominion Street, London, EC2, announce that Mr S. A. MANN, A.C.A., who was previously articulated to Mr L. LAVY, F.C.A., has been admitted into partnership as from October 1st, 1957. The name of the firm will remain unchanged.

MESSRS PANNELL, CREWDSON & HARDY, Chartered Accountants, of Dunedin Chambers, Tinubu Street, Lagos, announce that they have opened an office at Northern Region Development Corporation Building, Hospital Road, Kaduna, Northern Nigeria, with Mr DENNIS JOHN NEVILLE, A.C.A., as resident manager.

MESSRS WESTON & Co, Chartered Accountants, of 72 Clifton Court, St John's Wood, London, NW8, announce that as from November 25th, 1957, they have removed their offices to 71 Clifton Court, St John's Wood, London, NW8. Telephone: Chancery 5582-3 and Cunningham 9370.

MESSRS LESCHER, STEPHENS & Co, Incorporated Accountants, of 6/8 Clement's Lane, Lombard Street, London, EC4, announce with deep regret the death on November 17th, 1957, of Mr JOHN RAYMOND MASKELL, F.S.A.A., in his eightieth year. The practice will be continued by the surviving partners and the name of the firm will remain unchanged.

MESSRS DOUGLAS KAY & Co, Certified Accountants, of Cathedral Chambers, 18 Campo Lane, Sheffield, 1, announce that Mr FRANK STANLEY HALL, A.C.A., A.A.C.C.A., A.T.I.I., has been admitted to partnership as from November 1st, 1957. The name of the firm remains unchanged. A branch office has been opened at 26 Wicker, Sheffield, 3, and Mr HALL will continue to practise under the style of HALL & Co, Chartered Accountants, 26 Wicker, Sheffield, 3.

PROFESSIONAL NOTES

Mr J. Collins, C.A., has been appointed a member of the Clean Air Council for Scotland under the terms of the Clean Air Act, 1956.

Mr J. R. Muir, B.A., C.A., has been appointed a member of the Grassland Utilization Committee.

Mr H. M. Rowe, F.S.A.A., secretary of Donald Macpherson & Co Ltd, has been appointed deputy chairman of the company.

IN PARLIAMENT

NATIONAL FINANCE: DECIMAL AND METRIC SYSTEM

Mr SHEPHERD asked the Chancellor of the Exchequer what fresh consideration has been given to the possibility of introducing decimal coinage and the metric system.

Mr P. THORNEYCROFT: None.

Hansard, Nov. 19th, 1957. Written Answers. Col. 17.

SURTAX: PRIVATE COMPANIES

Sir J. HUTCHISON asked the Chancellor of the Exchequer how many of the 291,000 private companies on the register in the United Kingdom at March 1956, or the nearest convenient date, came within the definition of companies under Section 256, so as to be liable to have their income apportioned for surtax purposes under Section 245 of the Income Tax Act, 1952; and for how many of those companies were directions issued by the Special Commissioners in respect of the year ended March 31st, 1956.

Mr POWELL: The information asked for in the first part of the question is not available. As regards the second part of the question, the number of companies to which notice of a surtax direction was given by the Special Commissioners during the twelve months ended March 31st, 1956, was 716, of which 632 were investment companies which are subject to automatic direction.

Hansard, Nov. 22nd, 1957. Written Answers. Col. 76.

ACTUARIES' DINNER

The Chancellor of the Exchequer, the Right Hon. Peter Thorneycroft, M.P., was the principal guest at a sessional dinner of the Institute of Actuaries at Grosvenor House, Park Lane, London, last Wednesday. The President of the Institute, Mr Charles F. Wood, F.I.A., A.S.A., presided and among the guests were:

Mr W. O. Atkinson, M.B.E., F.I.M.T.A. (*President, The Institute of Municipal Treasurers and Accountants*); Sir John Braithwaite (*Chairman, London Stock Exchange*); Mr James Borsay, F.C.W.A. (*President, The Institute of Cost and Works Accountants*); Sir Henry Hancock, K.C.B., K.B.E., C.M.G. (*Chairman, Board of Inland Revenue*); Mr F. J. McGregor, M.A., F.F.A. (*President, The Faculty of Actuaries*); Sir George Maddex, K.B.E., F.I.A., F.S.A., HON.F.F.A. (*Government Actuaries Department*); Sir Roger Makins, G.C.M.G., K.C.B. (*Joint Permanent Secretary to the Treasury*); The Right Hon. Lord Piercy, C.B.E. (*Chairman, Industrial and Commercial Finance Corporation*); Sir Harry Pilkington (*Director, The Bank of England*); Mr F. M. Redington, M.A., F.I.A. (*Chairman, Life Offices Association*); The Right Hon. Sir Hartley Shawcross, Q.C., M.P.; Mr R. S. Thorp (*President, Chartered Insurance Institute*); Mr C. F. Trustam, M.A., F.I.A. (*Chairman, British Insurance Association*); the Right Hon. R. McKinnon Wood, O.B.E., M.A., F.R.A.E.S., J.P. (*Chairman, London County Council*); Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A.; Mr I. B. Yeaman (*President, The Law Society*).

The toast of 'The Institute of Actuaries' was proposed by the Chancellor of the Exchequer and Mr Wood replied. Mr J. P. H. Pegler, F.I.A., F.S.S., proposed the toast of 'The Guests', to which Mr. R. McKinnon Wood responded.

DOUBLE TAXATION: U.S.A.

The agreement between the United Kingdom and the United States of America, which makes certain alterations in the provisions of the existing double taxation agreement between those countries so far as it relates to copyright and patent royalties etc., and which was signed on August 19th, 1957, was published on Monday as a Schedule to a Draft Order in Council.

SEVENTY YEARS WITH ONE FIRM

At the age of 86, Mr A. W. Jenkins is still actively engaged as managing clerk with A. C. Palmer & Co, Chartered Accountants, of London, after seventy years' service with the firm.

Mr Jenkins joined the firm's London staff in 1887 and at a recent luncheon given in his honour at which there was a presentation to commemorate his long service, he said that he would like nothing better than to begin his working life all over again.

It would be interesting to discover whether there is anyone in the profession who can claim a longer period of service with one firm.

SOUTH WEST LONDON CHARTERED ACCOUNTANTS' DISCUSSION GROUP

The next meeting of the South West London Chartered Accountants' Discussion Group will be held at *The Kingston Hotel*, Kingston upon Thames, on Monday, December 2nd, at 6.45 p.m., when the subjects for discussion will be 'The Finance Act, 1957', 'Taxation of groups' and 'Taxation allowances for research and development expenditure'.

THE CHARTERED INSTITUTE OF SECRETARIES

The report of the Council of The Chartered Institute of Secretaries for the year ended August 31st, 1957, to be presented at the Institute's annual meeting next Tuesday, records a total membership of 25,309, comprised of 19,304 Associates and 6,005 Fellows; the total membership increased by 638 during the year.

The report gives details of the activities of the four main overseas organizations, viz. in Australia, Canada, New Zealand and Southern Africa, and also gives summaries of the activities of branches in the United Kingdom; initial discussions, the report states, have taken place with a view to forming new centres in Berkshire and in Devon.

ANNOTATED TAX CASES

Part 2 of Volume XXXVI of the *Annotated Tax Cases*, edited by Mr Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *C.I.R. v. Pollock & Peel Ltd (C.A.)*; *National Coal Board v. C.I.R. (H.L.)*; *C.I.R. v. S. Berendsen Ltd (C.A.)*; *National Book League v. C.I.R. (C.A.)*; *Davy v. Smethurst (C.A.)*; *Stratton's Executors v. C.I.R. (C.A.)*; *Sun Life Assurance Society v. Davidson (H.L.)*; *Phoenix Assurance Co Ltd v. Logan (H.L.)*; *Westminster Bank Ltd v. C.I.R. (H.L.)*; *Wrightson and Another v. C.I.R. (H.L.)*; *The 'Norseman' (P. D. & A.)*; *Scott v. C.I.R. (Ch.D.)*; *Saunders v. C.I.R. (H.L.)*; *Countess of Kenmare v. C.I.R. (H.L.)*; *Carlsh v. C.I.R. (Ch.D.)*; *Misagae v. C.I.R. (C.A.)*; *Carson v. Cheyney's Executor (Ch.D.)*.

The annual subscription to the *Annotated Tax Cases* is 30s post free: the publishers are Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

GRIMSBY AND NORTH LINCOLNSHIRE CHARTERED ACCOUNTANTS

The annual dinner of The Grimsby and North Lincolnshire Branch of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants was held at *The Royal Hotel*, Grimsby, on Thursday, November 21st. The Branch Chairman, Mr J. M. Smith, A.C.A., presided, supported by Mr A. A. Beardsall, F.C.A., President, and Mr M. G. Bain, F.C.A., Vice-Chairman.

Approximately 110 members and guests attended and among those present were:

Messrs F. S. Mowforth, F.C.A. (President of the Hull, East Yorkshire and Lincolnshire Society); C. M. Strachan, O.B.E., F.C.A. (a member of the Council of the Institute); N. W. Thirtle, F.C.A. (Chairman of the Lincoln and South Lincolnshire Group); Alderman J. H. Franklin (Mayor of Grimsby); Councillor W. Whitby (Mayor of Cleethorpes).

Messrs L. A. Snelson (President, Grimsby and Cleethorpes Law Society); S. Gilfoyle (President, Grimsby and District Local Centre, Institute of Bankers); F. G. Harnden, F.C.I.I. (President, Insurance Institute of Grimsby); R. W. W. Brown, A.R.I.B.A. (President, North Lincolnshire Branch, Nottingham, Derby and Lincoln Society of Architects); Dr E. A. Robertson, M.B. (Local President, British Medical Association); Messrs B. A. Garrard (President, Grimsby and District Chamber of Trade); H. V. Heckford, O.B.E., and R. H. Wilson (H.M. Inspectors of Taxes); Alderman I. Abrahams, O.B.E., J.P. (Chairman of the Local Commissioners).

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Lieut.-Comdr. G. W. Wells, D.L., R.N., director and general manager of the Appleby-Frodingham Steel Co, a branch of the United Steel Companies Ltd, and the response was made by Mr A. S. H. Dicker, M.B.E., F.C.A., Immediate Past President of the Institute.

Major R. Clixey Fitzwilliams, M.A., A.C.A., proposed the toast of 'The Guests', the response being given by Mr J. Carl Ross, Chairman of Trawlers Grimsby Ltd, one of the companies which was presented with *The Accountant* Award for 1957 for the best published accounts.

NORTH LONDON DISCUSSION GROUP OF CHARTERED ACCOUNTANTS

The next meeting of the North London Discussion Group of Chartered Accountants will be held at 6.15 for 6.45 p.m. next Tuesday at *The Mason's Arms*, 38 Maddox Street, W1, when Mr A. V. Alexander and Mr D. D. Carrow will lead a discussion on 'Insurance broking'. New members will be welcomed.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting for Bible reading and prayer will be held at 6 p.m. on Monday next, December 2nd, in the vestry at St Mary Woolnoth Church, Lombard Street, EC3. The scripture for reading and thought will be the miracle of the cure of the paralysed man. (St Luke v. 18-26.)

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MANAGEMENT TRAINING COURSE

A course for training in management subjects is being held by Management Training (P.E.) Ltd from December 10th to 12th. The subject will be 'An appreciation of work study for management'. It is intended for directors and senior executives who wish to study the principles of work study and discuss both their practical application and their relation to other management techniques. To allow full discussion, the course—for which the fee is 25 guineas—will be limited to eight members. The course is non-residential and will be held at 12 Grosvenor Place, London, SW1, from which address further information may be obtained.

O.E.E.C. AT WORK

The fourth edition of the booklet *O.E.E.C. at Work for Europe*, now published, has been rewritten in order to take into account recent developments in the Organization's work. It contains new articles on the economic development of Western Europe, the European productivity agency and the liberalization of invisible transactions. The article on liberalization of trade has been supplemented by a study of the project for a European free trade area.

Free copies of the booklet may be obtained from O.E.E.C., Information Division, 2 rue André-Pascal, Paris, 16e.

LONDON STUDENTS' COLUMN**News from the London Chartered Accountant Students' Committee****Committee**

The vacancy arising following Mr Craig's resignation on going up to Bristol University has been filled by the co-option to the Committee of Mr M. A. Anderson, B.SC.(ECON.), A.C.W.A., of Wenham Brothers & Co.

Christmas Dance

Demand for tickets for the Christmas Dance at the Royal Festival Hall on Friday, December 20th, is nearly double the number of tickets available. The Committee have therefore decided to book the foyer of the Hall as well as the restaurant. This should accommodate all those who have applied already and there are some tickets still for sale. Members are invited to apply early for these to the Assistant Secretary at Spencer House, South Place, EC2, with a payment of £3 3s 0d for each double ticket.

Mock Company Meeting

The mock company meeting will be held at the Chartered Insurance Hall on Wednesday, December 4th, at 5.30 p.m. It is to take the form of the annual general meeting of a company which has been subject to a recent take-over bid. Details of this have already been circulated to all members.

Integration

The scheme of integration of The Society of Incorporated Accountants with the Institute has now been accepted. In time members of the Incorporated Students' Society will join the Chartered Accountant Students' Society of London, but meanwhile they are invited to attend and take part in all the activities of the Students' Society pending formal admission as members. A special new members' meeting will be

arranged in January at which members of both Societies will meet together.

Dinner Debate

Attendances at debates have been very encouraging this session and the final debate before Christmas will take the form of a mock 'Lord Mayor's Banquet'. Plans are in hand for what promises to be a very lively and entertaining evening on Wednesday, December 18th, at London Wall Restaurant. The cost of the dinner is 5s and members should, if possible, notify the Hon. Debates Secretary beforehand so that he can reserve sufficient places.

Annual Dinner

The principal speakers at the annual dinner to be held at Grosvenor House on Monday, December 9th, will be General Sir Nevil C. D. Brownjohn, G.B.E., K.C.B., C.M.G., M.C., A.D.C., Quartermaster-General to the Forces, Mr R. McKinnon Wood, O.B.E., M.A., F.R.A.E.S., J.P., Chairman of the London County Council, and Sir David Keir, M.A., Master of Balliol. The President of the Institute, Mr W. H. Lawson, C.B.E., B.A., F.C.A., and the President of the Students' Society, Sir Harold Gillett, M.C., F.C.A., will also speak, as will the Chairman of the Committee, Mr L. C. McCracken.

Next Week's Meetings

The following meetings will be held during next week:

Monday: Visit to Ford motor works (limited number).
5.30 p.m. (at Luton): Lecture on 'Investigations', by Mr R. Glynne Williams, F.C.A., F.T.I.I.

Wednesday, 5.30 p.m., at the Chartered Insurance Hall: Mock company meeting. *Chairman:* Sir Harold Gillett, M.C., F.C.A. (President of the Students' Society).

Friday: Squash v. Metropolitan Police.

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TWO STAMP DUTY DECISIONS

APPEALS against stamp duty assessments are rarely successful, which is perhaps one of the reasons for the paucity of reported cases on stamp duty, compared with the plethora of income tax cases. However, this week two separate appeals against stamp duty assessments were upheld in the High Court and both of them contain wide implications.¹

In *Grey and Another v. C.I.R.* a settlor had made settlements in 1949 on each of his five grandchildren. In 1950 he made a sixth settlement; and the appellants were trustees of all six settlements. On February 1st, 1955, he transferred 18,000 shares beneficially owned by him in a company to the appellants as his bare trustees. On February 18th, 1955, he orally directed the appellants to hold five blocks of 3,000 shares each, on the trusts of the five settlements of 1949 respectively. At the same time he directed the appellants to hold the remaining 3,000 shares on the trusts of the 1950 settlement.

After the lapse of about another five weeks, the appellants made six written declarations of trust, setting out the terms of the oral directions, and the settlor, although not expressed as a party to these written declarations, executed them as an acknowledgment of their correctness. When the six declarations were presented to the Inland Revenue for adjudication as to the correct amount of stamp duty, the Inland Revenue contended that each of them constituted a voluntary disposition of the shares mentioned in it and was accordingly stampable *ad valorem* at approximately 2 per cent under Section 74 (1) of the Finance (1909-10) Act, 1910, on the value of the shares in question. The appellants contended that the six instruments were each chargeable with 10s duty only, as declarations of trust which passed no beneficial interest.

The Revenue contention rested on two main grounds. The first one was based on the operation of Section 53 (1) (c) of the Law of Property Act, 1925, which re-enacted, in slightly different words, Section 9 of the Statute of Frauds, 1677, and is as follows:

'53. (1) Subject to the provisions hereinafter contained with respect to the creation of interests in land by parol -

(c) a disposition of an equitable interest or trust subsisting at the time of the disposition, must be in writing signed by the person disposing of the same, or by his agent thereunto lawfully authorized in writing or by will.

Section 53 (2) does not affect the creation or operation of resulting, implied or constructive trusts.

The Inland Revenue argued that a direction to trustees was a 'disposition' within Section 53 (1) (c) and that accordingly the bene-

¹ *Grey and Another v. C.I.R.*; *Oughtred v. C.I.R.*

ficial interest in the shares did not pass to the beneficiaries until the occasion of the execution of the written declarations, which accordingly constituted voluntary dispositions. It was conceded on behalf of the appellants that if Section 53 (1) (c) did apply, then *ad valorem* voluntary disposition duty would be payable; no argument as to alternative liability under the heading 'settlement' was put forward.

Mr Justice Upjohn said that there were three ways of transferring an equitable interest; by assignment, by declaration of trust, and by directing the trustees to hold the property for someone else. The first method required writing, while a declaration of trust could be oral. He rejected the Revenue contention that the second method constituted an assignment, holding that it, too, constituted a declaration of trust, which had been unaffected by Section 9 of the Statute of Frauds. The question then arose whether the slight change of wording introduced by Section 53 (1) (c) of the 1925 Act, in particular the use of the word 'disposition', altered the rule in the Revenue's favour. His lordship said that he was satisfied that Section 53 (1) (c) was directed only to types of disposition within the old Section 9.

The Revenue's other contention was that, in view of the brief lapse of time between the oral and the written declarations, the two together constituted one transaction, on the principle established in *Cohen and Moore v. C.I.R.* (12 A.T.C. 73). His lordship pointed out that this contention was not made in the stated case and no facts had been found to support it. Even had such facts been found, he did not think he ought to draw the inference contended for; this was simply a case of a written record being made of an oral trust which might continue for a long time. He accordingly allowed the appeal and ordered the excess stamp duty to be repaid.

In *Oughtred v. C.I.R.*, the life-tenant of a trust of shares orally agreed with the reversioner to exchange some shares of her own for the reversion, completion to take place eight days later, on June 26th, 1956. On that date the life-tenant, the reversioner, and the trustees executed a deed of release of the trustees, the deed reciting *inter alia* the oral agreement and the fact that the trust shares were 'accordingly now held by the trustees in trust for (the life-tenant) absolutely

as the trustees hereby acknowledge and it is intended that the same shall forthwith be transferred to' the life-tenant. On the same day the trustees transferred the trust shares to the life-tenant who transferred to the reversioner the shares which she had agreed to exchange.

The Inland Revenue claimed that the agreement was an agreement for sale of the reversion, shares being treated as the same as cash for stamp duty purposes. They also claimed that Section 53 (1) (c) of the Law of Property Act, 1925, required an assignment in writing of the equitable reversion (so that the recital in the release was incorrect) and that the transfer of the trust shares was also an instrument whereby the reversion was vested in the life-tenant on sale. They accordingly levied *ad valorem* duty on the consideration for the reversion measured by the value of the shares given by the life-tenant in exchange for it; and they levied a further 10s duty in respect of the share transfer as such.

Mr Justice Upjohn said that there was a complete answer to this argument in Section 53 (2), which excluded the operation of constructive trusts from Section 53 (1) (c). As his lordship had said in the case of *Grey and Another*, there were several ways of transferring an equitable interest, and the constructive trust was one of them. By virtue of the oral agreement the reversioner had become a constructive trustee of the reversion for the benefit of the life-tenant, which meant that the recital in the deed that she was the absolute owner of the trust shares was correct. It was therefore unnecessary to decide the interesting point whether, if the recital was incorrect, the fact that the reversioner was estopped from denying it operated to vest the reversion in the life-tenant.

As in the previous case, the Revenue took another point which was not expressly set out in the stated case. This was that, independently of Section 53 (1) (c), the share transfer by the trustees was also a conveyance on sale of the reversion in the shares, within the wide definition contained in Section 54 of the Stamp Act, 1891. To decide this question, said his lordship, it was necessary to look at the facts of each case. Having regard to the terms of the release it was not correct to say that the subsequent transfer was a transfer on sale. Accordingly it was chargeable with 10s duty only.

AUDITING THE SALES FORECAST

by A. H. TAYLOR, A.A.C.C.A.

THE sales forecast represents the first link in a chain of estimates on which all subsequent stages of financial planning depend. Accountants are acutely aware that if actual sales prove to be considerably different from those shown in the budgets, all the carefully constructed projections of capital and revenue will be falsified and the mechanism for controlling costs, working capital and the availability of cash, will be thrown out of gear. A serious overestimate of sales may lead to over-buying, over-production, excess stocks, and consequent lack of liquid resources. The dangers of a considerable underestimate of sales may be equally disastrous resulting, perhaps, in hand-to-mouth efforts on the part of the production or operating division to meet orders for which insufficient facilities in labour, materials, plant, general services and finance, are available. In either case unit costs are likely to rise and the forecasted revenue accounts and financial statements will lose their value as standards against which actual results can be usefully compared.

Because of the far-reaching consequences of over-budgeting for sales, many accountants have formed the habit of discounting projected sales before compiling their financial estimates. Whilst such a practice may be useful in counteracting the optimism natural to many sales executives, it should be unnecessary if the sales estimate is prepared on factual grounds and is accepted by top management as a practical statement of the intentions of the business. Individual salesmen may be given high targets for incentive purposes but there is no necessity for the aggregate of such targets to constitute the company sales budget. The sales target which will regulate all other aspects of business planning must be a practical target which will decide the nature and scope of the effort required in all the major functions of the business.

Two Elements of the Forecast

Although the principle of responsibility budgeting necessarily entails that the sales manager shall, subject to considerations of general company policy, be entirely responsible for carrying out the sales plan, yet the accountant as the servant of general management has a duty to audit and advise on all plans which affect the finances of the undertaking. It is suggested, therefore, that the accountant should satisfy himself that the sales

forecast is prepared on a logical basis and relates to such facts as are available or can be obtained.

The first exercise in sales budgeting should be an analysis of the known facts represented by outstanding customers' orders for individual production or delivery from stocks. Such orders will need further analysis by delivery dates and product groups so that the anticipated income and costs may be allocated to accounting periods, and the delivery dates checked in relation to planned output and the availability of stocks in the periods concerned. Furthermore, it is desirable that such delivery dates be reviewed from time to time so that the budgets may be revised and customers informed of any amendments which have become necessary.

The second exercise consists of an estimate of future orders receivable and it is in this operation that reliance on past figures may lead to serious error. The logical preliminary to the preparation of a forecast of future orders is a careful assessment of the potential market for each product or service for sale. In making this assessment the problem in general involves (a) a calculation of the number of potential users of the article for sale; (b) a calculation of the number of units which each user is likely to require in a given period – probably for convenience the accounting year – and this assessment will be affected by the average life of the product; and (c) an estimate of the share of the market which can be obtained by the business in question.

Assessment of Potential Market

The fundamental problem in forecasting future orders on these lines lies in the correct assessment of the potential market in quantitative terms. Although at first sight this particular aspect of the operation may appear to be one of especial difficulty, because of the necessity for obtaining statistics of potential users, it should be borne in mind that a wealth of information is available at small cost from commercial and technical publications and those issued by Government departments, whilst in many cases detailed figures are obtainable directly from Government departments and from trade associations. Where the expense is justified by the extent of the operation the work may be assigned to a specialist market research organization.

The precise method to be used for assessing the potential market will, of course, differ according to the type of business and the nature of the

product or service concerned, but the kind of factors in general use are, for example, population figures for various areas, numbers of retailers or wholesalers dealing in the line, numbers of organizations who are buyers of the product, published output of which the product will form a component or accessory, and similar factors. The circulation of questionnaires or interviewing of representative samples of the population are frequently used but, it is submitted, these rather expensive methods are not essential where reliable statistics are obtainable from the sources mentioned above.

The final calculation, which consists in estimating the share of the market which it is believed the business can obtain, may be less of an exercise in statistics and will certainly be affected by the sales manager's appraisal of the comparative merits of his product and selling effort. But for this purpose past figures of orders taken will, if related to the potential, indicate the basic proportion of the market which should be secured.

Analysis of Variances

An important benefit to be derived from making an assessment of the potential market is that the figures so obtained are usually suitable for analysis into selling areas and customer groups and will thus be invaluable in fixing selling quotas for salesmen and divisions of the selling organization. An equally important advantage is that by a comparison of the actual orders taken compared with the forecast the outstanding variances can be traced to their sources, i.e. the products, areas and customer groups where the quotas are not being substantially achieved. Thus, action can be taken to improve turnover at the points where the major variances occur. Even if a known or unknown error existed in the original forecast an examination of the percentage variances will enable corrective action to be taken by intensifying the effort, modifying the product, or possibly reducing the price, in those directions where sales are below normal. It is undoubtedly true that the most scientifically prepared budget may be falsified by changes in external circumstances, such as, for instance, the imposition of credit restrictions, but if the forecasts are built up on the lines outlined above the necessary budget revision can be made very much earlier than if the budgets represented a more or less inspired guess.

The Long-term Plan

Once the sales estimate has been made on the basis of existing orders outstanding for delivery

plus future orders receivable, the resultant total may need qualification in the light of productive capacity, the availability of finance, materials, labour, plant and other facilities. If the achievement of the potential sales as expressed in the preliminary forecast entails an expansion beyond the existing resources of the business, a detailed examination of departmental requirements of space, plant, staff and capital will have to be undertaken. In particular, top management will be unable to decide upon the extent and nature of the expansion in facilities which are required until the financial implications have been worked out by the accountant. For such a situation the vital importance of an accurate sales forecast cannot be over-emphasized.

If considerable expansion is projected it is probable that the short-term planning of company operations will depend more upon a calculation of optimum productive capacity, or perhaps buying potential, than on the preliminary sales forecast. But in this case the sales potential will, within the limits of the expansion programme, constitute the basis for long-term planning, covering a forward period of, say, five years or more. Even where forward planning for the immediate future is limited by production capacity a faulty sales forecast may prove disastrous by straining the resources of the business to produce goods which in the event cannot be readily sold. Far greater dangers will obviously ensue if an ill-conceived sales forecast sets into motion an expansion programme under which full use cannot be made of additional space, plant and capital. A careful and detailed assessment of market potentials is the prerequisite to long-term planning and an essential safeguard against over-capitalization.

Conclusion

Sales management must be responsible for preparing and putting into effect the sales plan after it has been approved by top management, but the duties of the accountant are not fulfilled by blindly accepting whatever estimates are put before him. He should be ready to help and guide the sales departments in making their calculations so that the overall future planning of the company's operations shall be founded upon all the facts that are available. Whilst the compilation of a sales forecast on the lines proposed above will certainly involve considerable effort and time on the part of both sales and financial departments, it would seem that such an operation is essential for the proper control of business in the complex modern world.

BUSINESS TENANCIES – II

Seeking and Opposing New Tenancy

by SPENCER G. MAURICE

ONE of the ways in which a tenancy to which Part II of the Act applies may be brought to an end is by the tenant requesting a new tenancy. Such a request requires six months' notice before it takes effect, and if the tenant wishes thereafter to stay on in the premises, he must apply to the County Court, under Section 29, for a new tenancy, to begin as soon as the statutory extension comes to an end. *Sidney Bolson Investment Trust Ltd v. E. Karmios & Co (London) Ltd* ([1956], 1 Q.B. 529; [1956], 1 All E.R. 536) shows what care must be taken by the tenant in making an application. The defendant tenant in that case, on December 6th, 1954, when the lease had more than six months to run, the current term being a seven-year lease expiring on June 24th, 1955, requested, under Section 26 (1), a new tenancy, to commence on June 25th, 1955. If this request was valid it followed that, under subsection (5) of Section 26, the existing tenancy would be terminated

'immediately before the date specified in the request for the beginning of the new tenancy',

and not automatically continued under Section 24 (1): that is to say, the statutory extension would not arise at all. But in order to secure a new tenancy the tenant should then have gone on to apply to the County Court for a new tenancy under Sections 24 and 29: subsection (3) of Section 29 requires that the application shall be made not less than two months and not more than four months after the making of the tenant's request.

Whether or not the County Court would then have granted a new tenancy would have depended upon whether or not the tenant's application was successfully opposed by the landlord under Section 30, but in fact the tenant failed to make application to the Court at any time, and accordingly the plaintiff landlord claimed that the tenancy had come to an end on June 24th, 1955, and that it was entitled to possession. The case was curious because the tenant in contending that the tenancy had not come to an end, relied on an argument that its request to the landlord was not valid (so that the tenancy was automatically continued under Section 24 (1)), while the landlord argued that the request was valid (so that

the tenant was put out of Court by its subsequent failure to make the requisite application to the County Court), although the landlord had in the first place taken the point, in opposing the request, that it was made in bad form. The centre of argument was the tenant's failure, in making the request for a new tenancy, to specify its duration.

How Request should be Made

Section 26 (3) provides:

'A tenant's request for a new tenancy shall not have effect unless it is made by notice in the prescribed form given to the landlord and sets out the tenant's proposals as to the property to be comprised in the new tenancy (being either the whole or part of the property comprised in the current tenancy), as to the rent to be payable under the new tenancy and as to the other terms of the new tenancy.'

The Court of Appeal held that the word 'terms' in subsection (3) of Section 26 included the term as to duration of the tenancy, but that the tenant could state his proposal for duration sufficiently by implication. In the present case the Court held that the tenant had done so, because the proposal made to the landlord

'... as to the rent to be payable under the new tenancy and as to the other terms of the new tenancy [was] an annual rent of £200 per annum upon the terms of the current tenancy...'

and that the word 'terms' in each place where it was used in that proposal must have the same meaning as it had in subsection (3) of Section 26 and so included all the terms in the current lease, including the term as to duration, with the result that the proposal, in impliedly proposing a duration of seven years for the new tenancy, sufficiently complied with the Act. The Court refused to accept an argument by the tenant that the request was made by a mistake since (as appeared from a letter from the tenant to the landlord, dated December 23rd, 1954) the intention had been to ask for a new lease of fourteen years' duration, and a further argument that the landlord was estopped, by its notice of opposition, from contending that the request was valid, since that

notice merely intimated the ground on which an application to the County Court for a new tenancy would be opposed if such an application were made.

Grounds for Opposing New Tenancy

The various grounds on which a landlord may oppose an application for a new tenancy under Section 24 (1) are set out in paragraphs (a) to (g) of subsection (1) of Section 30. In all the reported cases in the High Court and the Court of Appeal the landlord's opposition has been based either on paragraph (f) or on paragraph (g) of subsection (1). The grounds of opposition there stated are:

'(f) that on the termination of the current tenancy the landlord intends to demolish or reconstruct the premises comprised in the holding or a substantial part of those premises or to carry out substantial work of reconstruction on the holding or part thereof and that he could not reasonably do so without obtaining possession of the holding;

'(g) subject as hereinafter provided, that on the termination of the current tenancy the landlord intends to occupy the holding for the purposes, or partly for the purposes, of a business to be carried on by him therein, or as his residence.'

Then follows, in subsection (2), the proviso referred to, which is to the effect that the landlord shall not be entitled to oppose an application on the ground specified in paragraph (g) if his interest in the premises was created within five years of the termination of the lease.

Who is the Landlord?

In considering whether opposition by a landlord under paragraph (g) of subsection (1) of Section 30 is barred by the operation of subsection (2) of that section, it is necessary to consider first, subsection (1) of Section 44, which gives to the term 'landlord' a special technical meaning for the purposes of the Act, and, secondly, whether the landlord must be the same person throughout the whole period after the machinery of the Act has been set in motion.

Subsection (1) of Section 44 provides that, except where the reference is to a notice to quit given by the landlord, in which case subsection (2) provides that the reference is to be understood as a reference to the immediate landlord,

'... the expression "the landlord", in relation to a tenancy (in this section referred to as "the relevant tenancy"), means the person (whether or not he is

the immediate landlord) who is the owner of that interest in the property comprised in the relevant tenancy which for the time being fulfils the following conditions, that is to say:

(a) that it is an interest in reversion expectant (whether immediately or not) on the termination of the relevant tenancy, and

(b) that it is either the fee simple or a tenancy which will not come to an end within fourteen months or less by effluxion of time or by virtue of a notice to quit already given by the landlord,

and is not itself in reversion expectant (whether immediately or not) on an interest which fulfils those conditions'.

The Interest of the Landlord

The operation of this subsection is seen in *Diploma Laundry Ltd v. Surrey Timber Co Ltd* ([1955], 2 Q.B. 604; [1955], 2 All E.R. 922), an appeal to the Court of Appeal from the decision of the judge of Southwark County Court, dismissing an application by the tenant for a new tenancy. By an underlease dated June 16th, 1935, the premises had been subdemised to the tenant by Fleetwing Oil Company Ltd, for a term of twenty-one years, less one day from March 25th, 1934. The freeholder purchased the freehold in December 1949, and on March 25th, 1953, accepted from Fleetwing Oil Co Ltd, for valuable consideration, a surrender of their lease. The tenant's application was made on September 23rd, 1954. The freeholder could not successfully oppose the tenant's application if the freeholder's interest had been purchased or created since March 24th, 1950, so that the case turned on the effect of the surrender on March 25th, 1953: was the interest of Fleetwing Oil Co Ltd, the interest of the landlord, or an interest which had merged in that interest and but for the merger would be the interest of the landlord? Sir Raymond Evershed, M.R. (as he then was) (with whom Jenkins and Parker, L.JJ., agreed), held that it was not: it was true that it was or would have been an interest in reversion expectant on the termination of the relevant tenancy within the terms of condition (a) in Section 44 (1), but it would not have satisfied condition (b) because it was not a fee simple and was not, either at the time of the tenant's making the request for a new tenancy or at the time of the landlord's giving notice of opposition, a tenancy which would not have come to an end within fourteen months or less by effluxion of time. It followed, therefore, that Fleetwing Oil Co Ltd's interest would have

been an irrelevant interest for the purposes of subsection (2) of Section 30, that that subsection had no operation, and that the freeholder was entitled to succeed.

Statutory Tenant cannot be Landlord

Piper v. Muggleton ([1956] 2 Q.B. 569; [1956], 2 All E.R. 249) decided that a statutory tenant cannot be 'the landlord' within the meaning of Section 44 (1). The applicant was the tenant of the respondent under a subtenancy. At the time of the application the respondent was the tenant, not only of shop premises which he let to the applicant, but of the remainder of the building, part of which he himself used as shop premises, and the rest of which he occupied as his dwelling-house. The respondent opposed the application, but before the hearing took place the freeholders gave the respondent valid notice to quit under the Rent Restrictions Acts, which admittedly applied to the premises as a whole, so that at the date of the hearing he had become a mere statutory tenant. Nevertheless, the judge of the Wolverhampton County Court dismissed the application, whereupon the applicant appealed. The Court of Appeal held that the respondent, having become a statutory tenant, was not 'the landlord' within Section 44 (1), and that it was necessary at every stage of the proceedings down to final judgment that the person claiming to be joined as being 'the landlord' should in fact answer that description according to the statutory definition. Their lordships accordingly remitted the case to the County Court for re-hearing after joinder of the freeholders as respondents.

Change of Landlord

That the same person need not be the landlord both at the time when the tenant requests a new tenancy and when the landlord puts in his notice of opposition was decided by the Court of Appeal in *X. L. Fisheries Ltd v. Leeds Corporation* ([1955] 2 Q.B. 636; [1955], 2 All E.R. 875), which was not, however, a case on Section 30 (1), but on Section 57, which is concerned with modification on the grounds of public interest of rights under Part II of the Act.

The tenant in *X. L. Fisheries Ltd v. Leeds Corporation* applied under Section 26 (1) for a new tenancy and the landlord, having taken no action on the tenant's request, sold her reversionary interest to the Leeds Corporation which thereupon, and within two months of the tenant's request, applied to the Home Office for a certificate under Section 57 (1), that it was requisite for the purposes of the Corporation that the use or

occupation of the premises should be changed to occupation by the Leeds City Police, and at the same time gave the tenant notice of the application under Section 57 (4) (b). The tenant then applied to the Leeds County Court for the grant of a new tenancy. This the County Court judge granted, and the Corporation appealed to the Court of Appeal.

New Landlord may Succeed

The appeal turned upon whether the Act required that the landlord should be the same person at the time of the tenant's request for a new tenancy and at the times when the landlord applied for a certificate under Section 57 (1) and notified the tenant under Section 57 (4) (b) that the application under Section 57 (1) was under consideration: that is to say, whether the Leeds Corporation, having acquired the reversion since the tenant's request, was entitled to make application for a certificate under Section 57 (1). The Court of Appeal held that it was so entitled. Sir Raymond Evershed, M.R. (in a judgment with which Jenkins and Parker, L.JJ., agreed), considered the problem in the context of the ordinary case where the landlord has no special privileges by virtue of being a Government department or local authority, and made particular reference to Section 30 (1) (f).

The learned Master of the Rolls said ([1955] 2 Q.B. 646; [1955], 2 All E.R. 878):

'I can find nothing in the sections or the language used therein which would require the continuity throughout of the same person as landlord; and, indeed, it would be a strange thing if the Act did so require, because, though Parliament may do many things, it cannot insist that a particular person shall live a particular length of time. It is, in other words, I think quite plain that when the landlord comes to put in his notice of opposition, it is sufficient if at the time he puts it in he is in fact the landlord. It is, therefore, sufficient if he, having acquired the premises or the reversion since the date of the request, is able to say when he puts in his notice of opposition before the two months' period expires that he is the landlord and (to take the example that I chose from Section 30) that on the termination of the current tenancy he intends to reconstruct.'

His lordship concluded that, on the general scheme of the Act, a local authority which had special grounds of objection should not be any more disabled from relying on the special ground, because it had become landlord since the request, than it would be in relying on one of the general grounds in Section 30:

(To be continued.)

Weekly Notes

Stock Exchange Rule Relaxed

Provided the companies concerned insure against claims arising under forged transfers the London Stock Exchange is prepared to waive compliance with its rules concerning the dispatch of protection notices to shareholders.

The Stock Exchange decision follows notification from Philip Hill, Higginson & Co Ltd to the effect that they have been informed by their insurance company that if they, as registrars, cease to send out protection notices to shareholders on lodgment of certificates or certification for transfer, the insurance company will raise no objection.

The rule of the Stock Exchange on protection notices was brought into operation at the time of the Hatry crash and the issue of the notices is a Stock Exchange and not a legal requirement. In law, a company gains no protection from giving the usual notice and the discontinuation of the practice, under the proviso made by the Stock Exchange, would save registrars a considerable amount of time in clerical work as well as savings in postage costs.

There must be a number of other points at which action could be taken to reduce costs and to streamline the machinery of stock and share registration, and the Council of the Stock Exchange are understood to have some moves in this direction under consideration.

Protecting the Pound

The Chancellor of the Exchequer has written to 25,000 firms and to the nationalized industries, asking them to give the Government's popular pamphlet¹, to which we referred in a Weekly Note in our last issue, as much publicity as possible. The new publication sets out four main reasons why it is essential for the welfare of our economy that the stability of the pound, both at home and abroad, should be fully maintained. These are:

- (1) We all need to be able to take for granted money that can be trusted to keep its value from year to year.
- (2) The value of the pound at home and its value abroad are in the last resort the same thing.
- (3) A trustworthy pound is good for world trade and therefore for our overseas earnings.
- (4) The reserves of many countries are held in our currency: we have a duty to maintain its value.

The accompanying narrative is intended to bring home, in as simple language as the complications of domestic and international finance will permit, each separate point and a short conclusion summarizes the vital connection between home and foreign currency policies.

¹ *The Pound - and our Future*, H.M.S.O., 6d net. Bulk quantities are available from H.M.S.O. only at the following rates, which include postage - 25 copies for 11s 6d, 100 copies for £2 4s, 250 copies for £5 5s, 500 copies for £10 5s, 1,000 copies for £19 5s.

The pamphlet contains a number of illustrations and charts and none is more significant than the diagram showing comparative national increases in labour costs per unit of output for the years 1950 to 1956. Those for Western Germany and the United States were .8 per cent and 21 per cent respectively. The increase for the United Kingdom was 38 per cent.

The colour motif for the publication is green which is a reassuring, restful shade. Warnings like the above should be splashed in the brightest red the printer's palette can provide.

Northern Lights

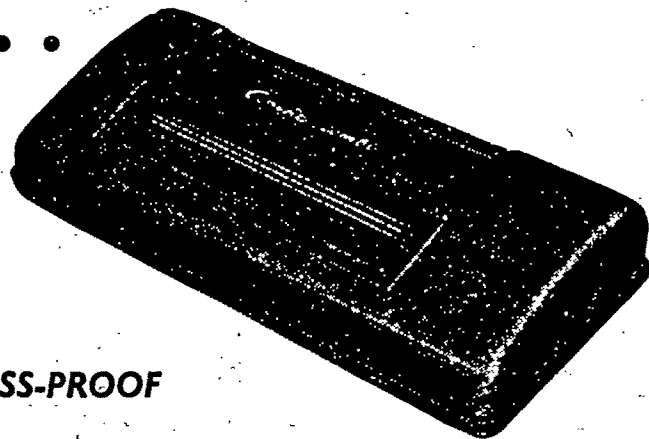
The attention of the Select Committee on Nationalized Industries (Reports and Accounts) in its first report¹, published on Friday of last week, was focused on the North of Scotland Hydro-Electric Board and the South of Scotland Electricity Board, the first nationalized undertakings to publish their annual accounts after the Committee had been set up. Before examining the accounts, however, the Committee investigated to what extent the finances of the boards - and those of the other nationalized industries - were under the control or supervision of Government departments. It came to the interim and indeterminate conclusion that it was as yet unable to say if there were any grounds for thinking that the influence of the Treasury had in any way unduly hampered the initiative of the two boards but that neither had made any complaints on this account. The Committee pointed out that if any nationalized board was able to finance its capital expenditure wholly from internal sources without recourse to external borrowing then the influence of the Treasury would be very much diminished but that, on the evidence submitted, there was no immediate prospect of that happening.

The Committee commented on the close concern of the Secretary of State for Scotland with the detailed operations of the boards. It noted, however, that he could not influence the general level of tariffs and that the action of the boards in holding down prices last year was voluntary.

In considering the financial accounts of the North of Scotland Hydro-Electric Board, the Committee remarked that the board with its heavy capital investment programme in hydro-electric undertakings was particularly sensitive to increases in interest rates. In 1956, the sum of £270,000 was lost in consequence of a rise in rates and this had turned a surplus on the year's working into a deficit. In view of the vulnerability of the board to these extraneous factors, the Committee wondered if the policy of making greater use of steam plants which required less capital outlay, even if running costs were greater, might not achieve the desired ends.

¹ H.M.S.O., 11s net.

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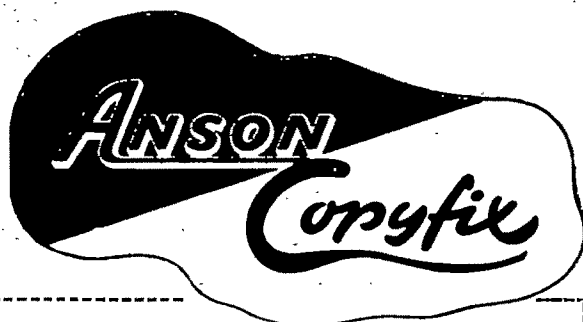
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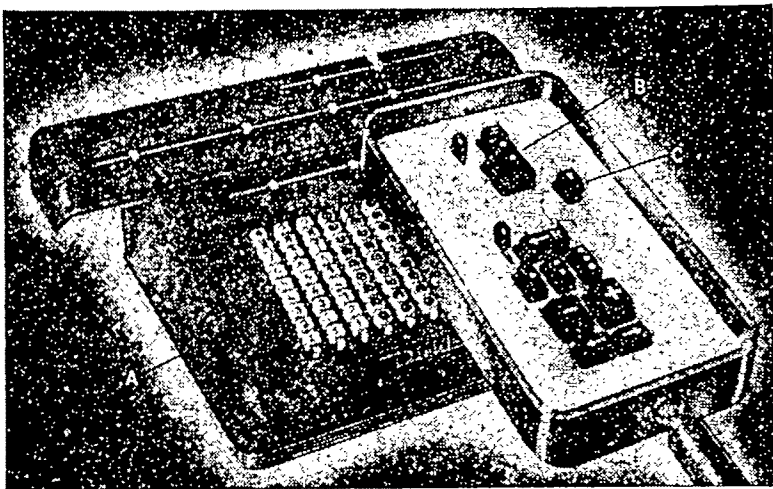
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FINANCE ACT 1956

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SCOTTISH EQUITABLE LIFE ASSURANCE SOCIETY

28 ST ANDREW SQUARE, EDINBURGH, 2
13 CORNHILL, LONDON, EC3

The Committee was unanimous in its view that, in the fourteen years of its existence, the North of Scotland Hydro-Electric Board had 'impressively justified the faith of its progenitors'. Of the South of Scotland Electricity Board, the Committee reported that it had heard nothing in any way critical of the way it was carrying out its functions. In its first complete year as an undertaking, the board had produced a substantial surplus of £1.16 million and the accounts showed that it was in a financially healthy state. The Committee stated that it hoped to make a detailed investigation after the board had been operating for several years.

Coal Board Evidence

Included in the minutes of evidence appended to the report referred to above were submissions by Sir James Bowman, K.B.E., and Mr J. Latham, C.B.E., A.C.A., chairman and deputy chairman, respectively, of the National Coal Board, upon which the Committee did not as yet wish to comment. In contrast to the freedom enjoyed by the two Scottish electricity boards in fixing their tariffs, Mr Latham's evidence indicated that since the coal industry had been nationalized, no increase in price had ever been made without the previous knowledge or consultation with the Minister of Fuel and Power. In some instances, the rise had not been one originally proposed by the board.

Sir James Bowman said that the board was not a commercial undertaking, nor a public service, but a bit of both. He affirmed that the board was prepared to accept all the responsibilities which the Government sought to place upon it and to play its part in the national economy but, having done that, it objected to complete misrepresentation of the facts. It would not be a bad thing, he continued, if the board was free to act as a commercial concern. The results shown might be different but full employment would suffer and British industry would not get home-produced coal at its present subsidized level. Sir James concluded that part of his evidence by saying that if the board was to be regarded as a public service, it should be made clear that it functioned as such and that, in his own words:

'... we are not going from time to time to be tripped up as attempts are made to trip us up, in relation to our balance sheet'.

Post Office Finances

The accounts of the Post Office for the year ended March 31st, 1957¹, published last Monday, show a deficit on income and expenditure account of £3.1 million. The rise in income of £47.5 million (to £356.2 million) was due partly to increased charges (£41.3 million) and partly to increased business (£6.2 million). Expenditure rose to £359.3 million. The main constituents in the rise of £52.9 million were pay increases totalling £22.7 million, price increases for supplies and services of £5.8 million, a contribution to the Exchequer of £5 million and a

supplementary allocation of £15.7 million to bring the depreciation provision into line with current plant values. The last two items are virtually new and were introduced as a result of the White Paper, *Report on Post Office Development and Finance*, which appeared in 1955 and became effective as from April 1st last year. Another new feature, implemented as a result of the White Paper, is that the annual surplus or deficit will be carried forward in a General Reserve Account instead of being transferred to the Exchequer.

Of the three individual services which the Post Office provides, telephones made a modest profit of £0.1 million but the postal and telegraph services incurred losses of £1.7 million and £1.5 million respectively. Capital expenditure for the year amounted to £103.2 million. About 85 per cent of this sum was for telephone plant. During the year, the seven millionth telephone was installed and the number of outstanding applications for telephones was reduced by 98,000 to 246,000.

The form and content of this year's accounts have been overhauled to bring them into line with current commercial practice and most of the suggestions made by Messrs Peat, Marwick, Mitchell & Co, who were brought in as consultants by the Postmaster-General, were incorporated. The introduction states that the accounts are used in determining the Post Office's financial policy which includes the fixing of charges to the public.

Atlantic Air Fares

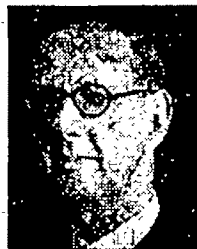
The International Air Transport Association announced last week-end that existing first-class fares would be raised by £12 10s and tourist-class fares by £8 18s. It has been decided not to continue excursion fares for the time being. On the other hand, a new one-way third-class fare of £90 has been introduced to take the place of the present tourist fare of £103. A new return fare of £162 has been introduced in place of the present tourist fare which it cuts by 20 per cent. The net effect is therefore to introduce cheap third-class fares by abolishing excursion fares and raising first-class rates. This move is one further step in the direction of tapping what is considered to be a large potential traffic in cheap transatlantic air travel.

In a sense, the more important decision of the two is to raise the first-class fares. It has been apparent for some time that the Americans would only agree to such an increase provided cheap fares were introduced. There has been a good deal of delay before this compromise was achieved, a delay which has been a heavy burden on air operators. They have been faced, and continue to be faced, with rising costs and fixed fares. Profit margins have therefore been squeezed and it has been exceedingly difficult for the air lines to plan their long-term development at the beginning of the jet age, with the prospect of ever-increasing capital outlay per aircraft and smaller profit margins upon which to operate them.

¹ H.M.S.O., 2s 3d net.

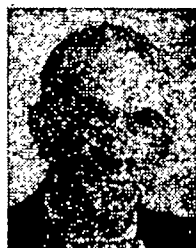
Integration: The Institute's New Council Members

We have pleasure in reproducing below the portraits of those members of the Council of The Society of Incorporated Accountants who, under the terms of the scheme of integration between the Society and the Institute, have been appointed to serve on the Council of The Institute of Chartered Accountants in England and Wales. Sir Richard Yeabsley, C.B.E., and Mr H. L. Layton, M.S.M., were already members of the Institute; the admission to membership of the other eight Society members, and the election of all ten members to the Council of the Institute, were approved at the meeting of the Council held last Wednesday.



ABOVE.—Left to right: Mr John Ainsworth, M.B.E., M.COM.; Mr Edward Baldry; Mr C. Percy Barrowcliff; Mr L. C. Hawkins; Mr J. S. Heaton.

BELOW.—Left to right: Mr H. O. Johnson; Mr H. L. Layton, M.S.M.; Mr Bertram Nelson, C.B.E., J.P.; Mr F. E. Price; Sir Richard Yeabsley, C.B.E.



Mr JOHN AINSWORTH, M.B.E., M.COM., is City Treasurer of Liverpool. He was admitted a member of the Society in 1927, elected a Fellow in 1935, and became a member of the Council of the Society in May 1946. He is also a member of the Council of The Institute of Municipal Treasurers and Accountants and was President of that Institute in 1946. Mr Ainsworth has an outstanding record in municipal accountancy, and in 1956, at the request of the Foreign Office, he visited Teheran to examine and report to the Mayor on the financial administration of that city.

Mr EDWARD BALDRY. Senior partner in the firm of Allen, Baldry, Holman & Best, of London, Mr Baldry has been Vice-President of the Society since May 1956. Admitted a member of the Society in 1919, he was elected a Fellow in 1930, and became a member of the Council in October 1949. He is a Freeman of the City of London, a member of the Fruiterers' Company, and has represented the Society on the Council of the London Chamber of Commerce since 1945. He is a director of several companies, being chairman of A. Gilby & Sons Ltd.

Mr CHARLES PERCIVAL BARROWCLIFF is senior partner in Messrs C. Percy Barrowcliff & Co, of Middlesbrough, Leeds, Wakefield and Newcastle, and a partner in Barrowcliff, Russell & Co, of London. He took First Place, Honours and Gold Medal in the Society's Final examination in 1908; was admitted to membership in 1909; elected a Fellow in 1920 and to

the Council in 1936. Elected President of the Society in May 1951, he held office for three years. Holder of a number of directorships, he is also a keen cricketer, having played for Durham County. He has twice taken four wickets in four balls.

Mr LEONARD CECIL HAWKINS. A full-time member of London Transport Executive, he passed the Society's Final examination with Honours in 1925 and was admitted to membership in 1926, being elected a Fellow in 1944. He was elected to the Council of the Society in May 1950. In 1955 he was chairman of the Commission of Inquiry into the public transport system of Singapore.

Mr JAMES STANLEY HEATON is a partner in the firm of Bottomley & Smith, of Keighley, Yorks. He gained Honours in the Society's Final examination in 1934, being admitted a member in 1935, and elected a Fellow in 1950. A member of the Incorporated Accountants' Research Committee, 1942-1952, he was elected to the Council of the Society in April 1955. Well-known as a lecturer and an author on taxation, Mr Heaton gave evidence for the Society before the Millard Tucker Committee on the Taxation of Trading Profits and before the Royal Commission on Taxation.

Mr HUGH OLIVER JOHNSON, a partner in Messrs Mundy, Brewer & Johnson, of Bath, was admitted a member of the Society in 1921 (Honours 1921). He

was elected to Fellowship in 1924 and to the Council of the Society in October 1949. He is a director of a number of companies in Bath.

Mr HAROLD LESLIE LAYTON, M.S.M., is a partner in Messrs Turquand, Youngs & Co. A member of both the Society and the Institute, he passed the Intermediate and Final examinations of both bodies with Honours. He was admitted to membership of the Society in 1925 and of the Institute in 1938; he became a Fellow of the Institute in 1943 and of the Society in 1953, and was elected to the Council of the Society in May 1955. He is a Freeman of the City and a liveryman of the Fanmakers' Company.

Mr WILLIAM BERTRAM NELSON, C.B.E., J.P., is senior partner in the firm of Lithgow, Nelson & Co, of Liverpool, and a partner in the firms at Southport and London. He passed his Final with Honours in 1929, was admitted a member of the Society in 1929, elected a Fellow in 1933 and to the Council in 1937. He was elected President in 1954 and held office for two years. He holds a number of directorships and is a member of the Board of Trade Consultative Committee on Companies. He is also a member of the Panel of Judges of *The Accountant* Annual Awards.

Mr FRANK EDWARD PRICE, a partner in Messrs

Arthur Collins & Co, of London and Newport, Mon., is also a member of The Institute of Municipal Treasurers and Accountants. He passed the Society's Final with Honours in 1926 and is a gold medallist of the I.M.T.A. He was elected a Fellow of the Society in 1946 and to the Council in April 1955. A part-time member of Wales Gas Board, he is a director of a number of public companies.

Sir RICHARD ERNEST YEABSLEY, C.B.E., is a partner in Messrs Hill, Vellacott & Co, of London, Cambridge and Deal, and in Messrs Hill, Vellacott & Bailey, of Belfast and Downpatrick. He was elected President of the Society in May 1956. Admitted a member of the Society in 1923 and elected a Fellow in 1943, he is also a member of the Institute, being admitted in 1935 and elected to Fellowship in 1940. He became a member of the Council of the Society in 1945. He is Accountant Adviser to the Board of Trade, was a member of the Monopolies and Restrictive Practices Commission and of several Government committees, including that on Distribution of Building Materials, on Resources of Minerals in the United Kingdom, on Resale Price Maintenance, and on Supreme Court Practice and Procedure. He is a member of the board of the British Institute of Management, chairman of Brown Brothers Ltd, and a director of other public companies.

Reviews

Basic Accounting and Cost Accounting

by EUGENE L. GRANT

(McGraw-Hill Publishing Co Ltd, London. 45s net.)

This introduction to the various aspects of accountancy is intended for both those who are embarking upon a professional career and those who want to know more about accountancy because success in business depends so greatly upon it. The merit of the book, particularly for the student, is that the author, who is Professor of Economics of Engineering at Stanford University, approaches the subject from the point of view of its contribution towards running a business—not in the usual manner in which the importance of accountancy is understood, if at all, only after students attain a fair degree of familiarity with the details of book-keeping mechanics.

The treatment of the subject is divided into three sections of which the first deals with accounting fundamentals, the second with cost accounting principles, and the last with such general accounting problems as depreciation and taxation. The description of the present basis for taxation of corporations and the history of the depreciation allowances for tax purposes are of some general interest but as this is an American publication, the value for students of of these chapters is somewhat limited (this applies, to a less extent, to the book as a whole). A brief but interesting chapter on the uncritical use of accounting figures reminds us of an ever-present danger. It is a pity that few British textbooks are framed on the same approach, or indeed are so readable.

Housing Finance and Accounts

Second Edition

by W. L. ABERNETHY, A.S.A., F.I.M.T.A., and A. R. HOLMES, M.Sc.(ECON.), A.I.M.T.A.

(Shaw & Sons Ltd, London. 30s net.)

The second edition of this book has recently been published, and takes account of several important changes in housing legislation since the book made its first appearance in 1953.

In preparing this revised edition, the authors have continued to demonstrate that clear sense of what was required of them which characterized the first edition. The additions and amendments to the original text necessitated by the Housing Repairs and Rents Act, 1954, the Requisitioned Houses and Housing Amendment Act, 1955, and more lately the important Housing Subsidies Act, 1956, have been woven evenly into the original writing. The satisfactory distribution of space devoted to each of the various aspects of the subject, which was a feature of the first edition, has been well maintained in this later work. The style is simple and direct, and because of its comprehensiveness, should appeal to municipal and other housing administrators as a handy book of reference. The main statutes are treated discursively and the accounting provisions appropriately illustrated. This form of presentation is attractive to modern students. They will welcome also the ease of reference provided by running heads used on the right-hand pages, instead of the often found monotonously repeated chapter-headings. The book, comprising

248 pages of reading matter (singularly free from padding) and relevant figurative examples, is rounded-off by a satisfactory index.

The arrangement of the chapters is logical. Those on rent collection and housing management, where they deal with the accounting functions, may well evoke criticism by housing managers and surveyors responsible for the management of estates. For example, the method of rent accounting through the medium of a rental kept on the 'negative posting' principle, dear to the hearts of accountants, is prominently and lengthily described. It is, however, not the only method. Likewise in the chapter on housing management the authors do not appear to take their readers very much nearer to settling the thorny old problem of whether the accountants or the housing managers should be responsible for control of the rent collection. This chapter could have been enhanced by even a brief dissertation upon whether this function is more financial than managerial, and therefore whether or not more fittingly undertaken by the finance staff.

One chapter is devoted to capital finance, a feature very markedly affected by the contemporary inflationary conditions. The authors' treatment of the fundamentals of capital financing by contrasting the features of the Public Works Loan Board and open market operations, is meritorious.

The authors have produced an authoritative book, written in a clear, balanced and stimulating style—indeed a distinct contribution to the lengthening shelves of post-war social studies.

The Chambers of Commerce Manual, 1958

Editor: ANDREW SCHONFIELD

(Published on behalf of the Association of British Chambers of Commerce by Newman Neame Ltd, London. 50s net.)

The 1958 edition of this *Manual*, which has as its sub-title *The Businessman's Reference Book*, has been very largely revised, and many features have been included for the first time.

The book is divided into three main parts. Part I gives a fairly detailed account of the latest developments which affect the business world in legislation, in political changes in the Commonwealth and in Government plans for important sectors of the economy. The second part deals with the underlying trends in important sectors of the economy by summarizing basic statistics fundamental to business forecasting; the sources which may be consulted for further details are also given.

The last part contains much of the standard directory information, but it has been selected to suit the requirements of the business man. In particular, this section contains a detailed account of import and export licensing in the United Kingdom and fifty other markets.

A subsection on finance in Part II includes a wealth of statistical information on stock-market movements, on sources of finance for investment

in industry, on new capital issues and on recent trends in insurance companies' business and building societies' activities.

Fluctuations, Growth and Forecasting

by SHERMAN J. MAISEL

(John Wiley & Sons Inc, New York.
Chapman & Hall Ltd, London. 60s net.)

This book is described as a practical guide to the use of economic analysis in decision making. This is rather too strong a claim; in fact, the book outlines at some length the factors contributing to a high and stable level of production and employment in the national economy. This exposition of trade cycle analysis is supplemented by a series of illustrations designed to reveal how an understanding of the workings of the economy and an appreciation of the significance of the main economic variables enable the business man to formulate his production and selling policy.

The text is free from jargon and any general reader who studies these 500-odd pages will certainly know a good deal about economic stabilization and economic forecasting with all its merits and defects. It is a pity that the author could not have compressed his material into smaller compass, for he writes clearly and simply, but the very length of his book will deter many prospective readers who would derive benefit from it.

RECENT PUBLICATIONS

AN ESTATE DUTY NOTEBOOK, 2nd edition, by G. Boughen Graham, LL.B. xvi + 141 pp. 8½ × 5½. 17s 6d net. The Solicitors' Law Stationery Society Ltd, London.

INCENTIVE PAYMENT SYSTEMS, A REVIEW OF RESEARCH AND OPINION, by R. Marriott, M.Sc. 232 pp. 8½ × 5½. 21s net. Staples Press Ltd, London.

SECOND (CUMULATIVE) SUPPLEMENT TO DYMOND'S DEATH DUTIES, 12th edition, by Robert Dymond and Reginald K. Johns, LL.B. xv + 122 pp. 9 × 6. 15s net; 12th edition, and supplement, £5 5s. The Solicitors' Law Stationery Society Ltd, London.

A GUIDE TO MANAGEMENT ACCOUNTING, by H. W. Broad, A.S.A., A.C.W.A., and K. S. Carmichael, A.C.A. vii + 152 pp. 8½ × 5½. 18s net. H.F.L. (Publishers) Ltd, London.

COST ACCOUNTS, 7th edition, by Walter W. Bigg, F.C.A., F.S.A.A. xiii + 328 pp. 8½ × 5½. 18s net. Macdonald & Evans Ltd, London.

A DICTIONARY FOR ACCOUNTANTS, 2nd edition enlarged and revised, by Eric L. Kohler, C.P.A. ix + 516 pp. 9 × 6. \$10. Prentice-Hall, Inc, Publishers, New York.

BUCKLEY ON THE COMPANIES ACTS, by the late the Rt. Hon. Lord Wrenbury, P.C., M.A. Thirteenth edition by J. B. Lindon, O.B.E., M.A., LL.M., assisted by G. Brian Parker, M.A., LL.B., and Hugh R. Williams, B.A. ccxxxiii + 1,230 + 165 pp. index. 10 × 6. £6 17s 6d (by post £7 0s 3d). Butterworth & Co (Publishers) Ltd, London.

INCOME TAX LAW AND PRACTICE, by Cecil A. Newport, F.A.C.C.A., and H. G. S. Plunkett, Barrister-at-Law. 27th edition, supplement to August 1st, 1957. 8½ × 5½. 3s 6d net. Sweet & Maxwell Ltd, London.

THE LAW RELATING TO BANKRUPTCY, DEEDS OF ARRANGEMENT, RECEIVERSHIPS AND TRUSTERSHIPS, by O. Griffiths, M.A., LL.B., Barrister-at-Law. 6th edition. xx + 260 pp. 9 × 6. 20s net. Textbooks Ltd, Harpenden, Herts.

COMMUNICATION IN INDUSTRY, Editor: Cecil Chisholm, M.A. xi + 314 pp. 9 × 5½. 35s. Business Publications Ltd.

UNIT STOCK AND STORE CONTROL, by H. Dennett, xi + 194 pp. 8 × 5½. 25s. Business Publications Ltd.

Finance and Commerce

Quiet conditions continue to rule in the stock-markets where the weight of money tied up in new issues is having a decidedly restrictive influence on trading. The undertone remains reasonably firm, however, and the November gold and dollar reserve figures have supplied a supporting influence. There is little prospect, however, of any improvement in turnover before the new year.

Tax Equalization

An important change has been made this year in the accounting policy of The Cementation Co Ltd, whose accounts we reproduce this week. This company in its earlier years specialized in cementation work, by which liquid cement was forced under pressure into weak structures. One of its latest achievements is the successful development of an economical means of consolidating old mine workings at shallow depths by working from the surface. In later years, it has developed a civil engineering side.

The point in the accounts is the discontinuance of the taxation equalization reserve. Mr A. R. Neelands, the chairman, says the decision has been made owing to the continual changes in the method of granting Inland Revenue capital allowances.

The £92,500 in group taxation equalization reserves has been transferred back to profit and loss account and, in effect, put to general reserve, to which an appropriation of £325,000 from profit and loss has been made.

There is an interesting article in the October issue of *British Shipping*, by Mr C. W. Aston, A.C.A., of the Peninsular & Oriental Steam Navigation Co, on 'Popular misconceptions about investment allowance', with a particular slant on the shipping industry. Almost every company balance sheet, he says, has a tax equalization account or future tax reserve representing sums that have to be repaid in the future. As to how much has been temporarily left in industry as a result of the initial allowance, no statistics are available, but, he says, it must be an enormous sum.

British Assets Trust

This year's accounts of British Assets Trust Ltd substantially follow the new form adopted last year. A reprint was given in our issue of December 15th, 1956. Two new items this time are a chart of the company's dollar securities and a summary of the quarterly figures. As with very many other investment trusts, British Assets has been a big investor in dollar securities in recent years. The dollar chart shows that in January 1948, the company's dollar holdings were valued at \$2,100,000. Between that date and September 30th, 1957, the dollar investment portfolio was built up at a further overall cost of \$6,200,000, making a total of \$8,300,000. But the actual valuation was \$21,600,000.

Mr Alastair Blair, the chairman, points out that

the appreciation of \$13,300,000 has resulted from the use of dollars entrusted to the company under the exchange regulations and has benefited the country in that all these dollar investments are potentially available to the Treasury as an addition to the country's dollar reserves.

Dollar income is at present running at the rate of \$680,000 a year after expenses and foreign taxes. These investments, says Mr Blair, are therefore making their contribution to the country's dollar income in just the same way as exports. At the same time, they act as a commercial link with the U.S.A. and Canada and go towards balancing American and Canadian interests in this country.

Quarterly View

A summary of quarterly figures covers the three years which have now passed since this company started to give quarterly reports of income and valuation to the Press. As usual, the London premium on dollar investments has been ignored in all the valuation figures.

The summary is given under four headings: the value of the investments at the quarter date; the gross revenue for the quarter to date; the gross revenue from the previous September 30th (the annual accounting date) giving the cumulative total for the six, nine and twelve months; and alongside that the gross revenue for the preceding twelve months. Gross revenue is calculated as the total income after deduction of expenses and interest but before taxation. It is difficult to realize that before the last war, we were urging investment trust companies to give the market valuation of their investments as well as the book value.

A further change worth noting is the conversion of the company's ordinary stock units into 5s shares. Share numbering went out with the 1948 Companies Act and this step has been taken, says Mr Blair, to eliminate the confusion that sometimes arose as to whether quotations referred to stock units of 5s or £ of stock.

It would be a good thing if all companies could get back to the share description. Whether stock units or shares, it all amounts to the same thing in the end, but accurate description should be aimed at when dealing with company affairs and it would save the bother of looking up the references to see how a company's capital is described.

Money Market

The market's bid for sixty-three-day bills was raised to £98 17s 7d on November 29th and the average rate was £6 9s 10-48d per cent. The bid for ninety-one-day bills was raised to £98 7s 9d with the average discount rate at £6 9s 2-27d per cent. This week's offer is for £50 million of the sixty-three-day and £240 million of the ninety-one-day bills.

THE CEMENTATION COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1957

	1956-57	1955-56
NET TRADING PROFIT OF GROUP after charging Items detailed below (See Note 4)	£ 928,113	£ 680,665
Audit Fee (The Cementation Co. Ltd.)	2,500	2,500
Depreciation—		
Freehold and Leasehold Properties	17,415	15,056
Plant and Machinery	367,866	309,075
Fixtures and Fittings	28,542	16,145
Motor Vehicles	73,735	56,860
Interest on overdrafts and loan	102,424	74,472
	£592,462	£474,108
INTEREST ON TRADE INVESTMENTS	4,585	400
	931,698	681,065
DEDUCT TAXATION		
Profits Tax	82,725	85,035
Reserve for future Income Tax (Holding Company, £177,500)	202,512	154,297
Balance of Income Tax, 1956-57	20,620	2,285
Overseas Taxation	268,156	102,102
	574,013	343,719
In the year 1955-56 relief of £97,000 was obtained from Investment Allowances.		
NET PROFIT OF GROUP AFTER TAXATION	358,685	337,346
Deduct:—		
Profits of Subsidiaries accruing to outside holders of Shares	5,868	1,433
	£352,817	£335,913
Profits of the Group, as above (after allowing for Inter-Company Dividends)	214,364	138,453
Transferred from Taxation Equalisation Reserve	89,500	33,000
Balance brought forward from previous year	164,154	284,738
	468,018	456,191
Deduct:—		
Transfer to General Reserve	125,000	200,000
Dividends of The Cementation Co. Ltd. (less Income Tax)	11,212	11,212
6 per cent. First Preference Shares	31,625	31,625
5½ per cent. Second Preference Shares	—	—
Proposed Dividend on Ordinary Shares	143,750	143,750
On £2,000,000 at 12½ per cent.	311,587	200,000
	511,587	186,587

THE CEMENTATION COMPANY LIMITED
Consolidated Balance Sheet, 31st March, 1957
(Combining the Assets and Liabilities of The Cementation Company Limited and its Subsidiaries)

	1957	1956
CAPITAL AND RESERVES		
SHARE CAPITAL OF THE CEMENTATION COMPANY LIMITED		
6 per cent. Cumulative First Preference Shares of £1 each	325,000	325,000
5½ per cent. Cumulative Second Preference Shares of £1 each	1,250,000	1,000,000
Ordinary Shares of 5s. each	2,500,000	2,000,000
	£4,075,000	£3,325,000
CAPITAL RESERVES (See Note 2)		
Capital Reserve	282,013	311,435
Share Premium Account	276,930	278,515
	558,943	589,950
REVENUE RESERVES AND UNDISTRIBUTED PROFITS (See Note 9)		
General Reserves	800,000	475,000
Taxation Equalisation Reserve	—	92,500
Profit and Loss Account (balances proposed to be carried forward)	£156,431	164,154
The Cementation Co. Ltd.	226,191	284,738
Subsidiaries	382,622	1,016,392
	1,182,622	4,931,342
Amount set aside for Future Income Tax on profits of year to date	5,066,565	172,297
5½ per cent. Unsecured Loan Stock—Repayable 1963/72 at a premium of 1 per cent	1,000,000	1,000,000
	£6,310,077	£6,103,639
REPRESENTED BY		
FIXED ASSETS		
Freehold and Leasehold Properties, Plant, Machinery, Fixtures and Fittings, Motor Vehicles and Contracting Equipment (per Schedule)	3,504,759	3,167,807
Trade Investments as valued by the Directors	110,525	103,418
	3,615,284	3,271,225
NET CURRENT ASSETS		
Current Assets—		
Stores as valued by the Management	1,278,742	1,174,195
Work executed but not invoiced, as valued by the Management, less amounts received on account	335,360	419,352
Debtors and Prepaid Expenses	4,542,968	3,332,776
Balances at Banks and Cash in hand (at home and abroad)	212,925	388,590
	6,369,995	5,314,913
Deduct:—		
Current Liabilities—		
Bank Overdrafts (Secured)	166,256	391,566
Bank Overdrafts (unsecured)	815,713	1,664,768
Creditors and Accrued Charges	2,287,593	251,390
Accrued Taxation	226,586	—
Dividends (less Income Tax) on Share Capital of The Cementation Co. Ltd.	13,513	13,513
Accrued Preference Dividends	143,750	143,750
Proposed Ordinary Dividend	3,653,411	2,464,987
	2,716,584	2,849,926
	6,331,868	6,121,151
Deduct:—		
Interest of Outside Shareholders—	13,450	13,449
Ordinary Share Capital	8,341	4,063
Undistributed Profits	21,791	17,512

SCHEDULE OF FREEHOLD AND LEASEHOLD PROPERTIES, PLANT, MACHINERY,
FIXTURES AND FITTINGS, MOTOR VEHICLES AND CONTRACTING EQUIPMENT

THE CEMENTATION CO., LTD.

	At net book value, at 30th June, 1948, with additions since at cost £	1957 Depreciation subsequent to 30th June, 1948 £	Balance 31st March, 1957 £	At net book value at 30th June, 1948, with additions since at cost £	1956 Depreciation subsequent to 30th June, 1948 £	Balance 31st March, 1956 £
Freehold and Leasehold Properties	309,551	30,615	278,936	269,086	24,471	244,615
Plant and Machinery	1,878,636	857,587	1,021,049	1,814,851	714,381	1,100,470
Fixtures and Fittings	159,050	63,254	95,796	108,817	41,812	67,005
Motor Vehicles	203,596	134,871	68,725	193,342	113,836	79,506
	<u>2,550,833</u>	<u>1,086,327</u>	<u>1,464,506</u>	<u>2,386,096</u>	<u>894,500</u>	<u>1,491,596</u>
Contracting Equipment at valuation according to condition			472,650			512,686
			<u>£1,937,156</u>			<u>£2,004,282</u>
GROUP						
Freehold and Leasehold Properties	856,288	79,526	776,762	772,503	62,481	710,022
Plant and Machinery	3,458,173	1,606,411	1,851,762	2,963,795	1,305,352	1,658,443
Fixtures and Fittings	243,669	93,044	150,625	178,864	65,772	113,092
Motor Vehicles	498,238	245,278	252,960	347,454	173,890	173,564
	<u>5,056,368</u>	<u>2,024,259</u>	<u>3,032,109</u>	<u>4,262,616</u>	<u>1,607,495</u>	<u>2,655,121</u>
Contracting Equipment at valuation according to condition			472,650			512,686
			<u>£3,504,759</u>			<u>£3,167,807</u>

NOTES ON BALANCE SHEET, CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

NOTE 1

The shares in subsidiaries have been valued on the basis of the book value of the Net Tangible Assets existing at the dates of acquisition or of revaluations (1938) together with assets equivalent to profits capitalised.

NOTE 2 MOVEMENTS ON RESERVES

	£
Capital Reserve:—	
Balance at 31st March, 1956	311,435
Less: Premium paid on acquisition of shares of a subsidiary	29,422
Balance at 31st March, 1957	<u>£282,013</u>
Share Premium Account:—	
Balance at 31st March, 1956	278,515
Less: Balance of Expenses of issue	1,585
Balance at 31st March, 1957	<u>£276,930</u>

NOTE 3

The debtors appearing in the balance sheets include approximately £288,000 in foreign currency which is not at present remittable.

NOTE 4

Owing to the nature of the companies' businesses there are contingent liabilities in connection with contracts and in some instances where the work on contracts extends over several years the results of such contracts cannot be fully determined until after completion. The Trading profit therefore includes the estimated results of contracts for interim periods with consequent adjustments during or after the closing period.

NOTE 5

(a) The Company has guaranteed for subsidiary and associated companies, loans and overdrafts which at the 31st March, 1957, amounted to £378,125, and contract bonds amounting to £42,396.

(b) There is a contingent liability for uncalled capital of a subsidiary of £40,500.

NOTE 6

The outstanding commitments for capital expenditure amounted at 31st March, 1957, approximately to:—

The Cementation Company Limited	£92,000	(£100,000)
Group	<u>£240,000</u>	<u>(£187,000)</u>

NOTE 7

The consolidated accounts incorporate the accounts of one foreign subsidiary which, to comply with local law, are drawn up as at 31st December, 1956.

NOTE 8

Assets and Liabilities arising in overseas currencies have been valued on the following bases:—

Fixed Assets	Approximately at rates ruling at time of acquisition.
Current Assets and Liabilities	At rates ruling on 31st March, 1957.

NOTE 9

The Revenue Reserves and Undistributed Profits of Subsidiaries (£526,191) mainly arise in respect of Overseas Companies whose profits would be subject to U.K. taxation, less Double Taxation Relief, if declared in dividend.

NOTE 10 DIRECTORS' REMUNERATION

Fees as Directors	£2,500	(£2,700)
Other Emoluments for Management Services including £8,930 paid by a Subsidiary	<u>£59,150</u>	<u>(£33,564)</u>
Pension in respect of past Director	£750	(£750)

Current Law

Apparent Authority of Agent

Interesting points on agency, the sale of goods, and hire-purchase arose in *Eastern Distributors Ltd v. Golding (Murphy, Third Party)* ([1957] 2 All E.R. 525). M. wished to purchase a Chrysler car from C., a car dealer, but he was unable to pay the deposit required and C. suggested that he should sell a Bedford van belonging to M., to the plaintiff, a hire-purchase company, together with the Chrysler in return for the plaintiff's agreement to sell both vehicles to M. on hire-purchase terms. M. agreed to this suggestion and signed hire-purchase documents in blank which were completed by C. and forwarded by him to the plaintiff. C. had no authority from M. to deal with the Bedford unless both transactions went through together. The plaintiff company accepted the hire-purchase proposal in respect of the Bedford but rejected that in respect of the Chrysler. Nevertheless, C. purported to sell the Bedford, which at all times remained in M.'s possession, to the plaintiff. Although the plaintiff sent a copy of the agreement to M., he made no payments under it, because he had been told by C. that the transaction was cancelled, and he subsequently sold the Bedford to the defendant. The plaintiff claimed to be entitled to the Bedford, and the defendant on being sued joined M. as third party.

It was clear that neither C. nor M. could deny to the plaintiff that C. had a good title to transfer the Bedford to the plaintiff because M. was privy to C.'s representation that the vehicle was his; or, if the matter be looked at as one of principal and agent, the plaintiff could not be affected by the limitation placed by M. on C.'s authority to sell because it was ignorant of it. The defendant's case was, however, that although C. and M. were estopped from denying that the property in the van passed to the plaintiff, the real position was that M. had never intended to sell the van to C. unless the double transaction went through, and that, therefore, M. had never in fact sold to C. and C. had no title to pass to the plaintiff.

This defence failed, because, as the Court of Appeal found, M. armed C. with documents which enabled him to represent to the plaintiff that he was the owner of the van and had the right to sell it, so that M. as owner was by his conduct precluded from denying the authority of C., as his agent, to sell, within Section 21 (1) of the Sale of Goods Act, 1893. Hence the plaintiff acquired the title to the van and M. was left with no title to pass to the defendant.

Effect of the Hire-Purchase Act

Nor was the defendant able to rely upon the fact that the hire-purchase agreement was unenforceable because M. had signed the forms in blank: he argued that such signature in blank did not comply with Section 2 (2) (a) of the Hire-Purchase Act, 1938, which requires that a note or memorandum of the agreement

should be made and signed by the hirer and by or on behalf of all other parties to the agreement. But the Court pointed out that the fact that the hire-purchase agreement might be unenforceable did not prevent the owner of the van from recovering possession of it from somebody other than the hirer: the plaintiff's right against the defendant did not depend upon the hire-purchase agreement but upon the fact that it was the owner of the van and thus entitled to possession of it, having acquired that ownership from the agreement with C. Furthermore, the hire-purchase agreement, though unenforceable, was not void and it was effective to change M.'s possession of the van from possession in the character of seller to possession in the character of bailee.

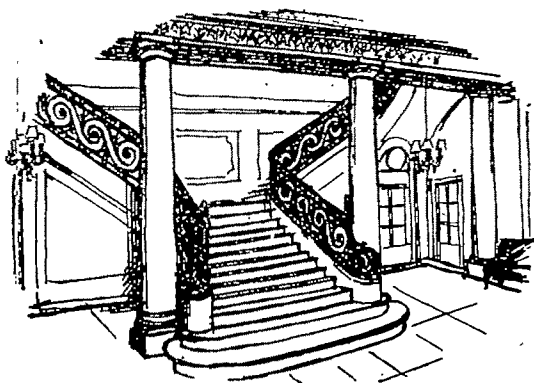
The Court accordingly held that the defendant could not rely on Section 25 (1) of the Sale of Goods Act, which provides that where the person having sold goods continues in possession of them, a person to whom he transfers them and who takes them in good faith without notice of the previous sale shall be protected: this provision only applies where the seller remains in possession as seller.

Beneficiary put to Election

The decision of Upjohn, J., in *Re Edwards, Macadam v. Wright and Others* ([1956] 3 All E.R. 526), which was noted in *The Accountant* of April 13th, 1957, has been reversed by the Court of Appeal ([1957] 2 All E.R. 495). Jenkins, L.J., pointed out that the essentials of election are, first, that there should be an intention on the part of the testator to dispose of certain property; secondly, that the property should not in fact be the testator's own property; and, thirdly, that a benefit should be given by the will to the true owner of the property.

His lordship pointed out that, whereas at the date of the testatrix' will the house which gave rise to the question of election was her own property, she subsequently disposed of it in her lifetime, and accordingly at the date of her death, her will contained no effective gift of it to anyone and no intention to make any testamentary disposition of it could be imputed to her. It followed that the first of the three conditions necessary to raise a case of election was not fulfilled.

His lordship added that he could see no justification for resuscitating a testamentary gift of property which had been addeemed by a disposition *inter vivos* and treating it as a fresh testamentary gift of property belonging to the person in whose favour the disposition *inter vivos* was made. The true position in such a case was that the testamentary disposition had clean gone, and the person in whose favour the disposition *inter vivos* was made simply took under that disposition without any question of his thereby taking against the will and thus being disqualified from receiving any benefit under the will.



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The AMAZING POTENTIALITIES OF MEMORY

I LITTLE thought when I arrived at my friend Borg's house that I was about to see something truly extraordinary, and to increase my mental powers tenfold.

He had asked me to come to Stockholm to lecture to the Swedes about Lister and other British scientists. On the evening of my arrival, after the champagne, our conversation turned naturally to the problems of public speaking and to the great labour imposed on us lecturers by the need to be word perfect in our lectures.

Borg then told me that his power of memory would probably amaze me - and I had known him, while we were studying law together in Paris, to have the most deplorable memory!

So he went to the end of the dining room and asked me to write down a hundred three-figure numbers, calling each one out in a clear voice. When I had filled the edge of an old newspaper with figures, Borg repeated them to me in the order in which I had written them down and then in reverse order, that is beginning with the last number. He also allowed me to ask him the relative position of different numbers: for example, which was the twenty-fourth, the seventy-second, and the thirty-eighth, and I noticed that he replied to all my questions at once and without effort, as if the figures which I had written on the paper had been also written in his brain.

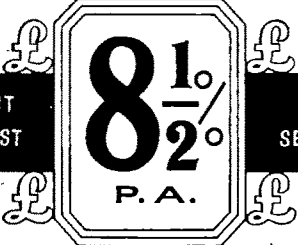
I was dumbfounded by such a feat and sought in vain for the trick which enabled him to achieve it. My friend then said: 'The thing you have just seen and which seems so remarkable is, in fact, quite simple; everybody has a memory good enough to do the same, but few indeed can use this wonderful faculty.'

He then revealed to me how I could achieve a similar feat of memory, and I at once mastered the secret - without mistakes and without effort - as you too will master it tomorrow.

But I did not stop at these amusing experiments. I applied the principles I had learned in my daily work. I could now remember, with unbelievable facility, the lectures I heard and those which I gave myself, the names of people I met - even if it was only once - as well as their addresses, and a thousand other details which were most useful to me. Finally, I discovered after a while that not only had my memory improved, but that I had also acquired greater powers of concentration; a surer judgment - which is by no means surprising since the keenness of our intellect is primarily dependent on the number and variety of the things we remember.

If you would like to share this experience and to possess those mental powers which are still our best chance of success in life, ask J. M. Borg to send you his interesting booklet *The Eternal Laws of Success* - he will send it free to anyone who wants to improve his memory. Here is the address: J. M. Borg, c/o Aubanel Publishers, 14 Lower Baggot Street, Dublin, Ireland.

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L. CONWAY.



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VULCAN INSPECTS—AND PROTECTS—

Cost of War Damage Repairs

The decision of Vaisey, J., in *Re 34 Bruton Street, Westminster* ([1956] 3 All E.R. 656) has been reversed by the Court of Appeal ([1957] 2 All E.R. 539). The Court of Appeal differed from Vaisey, J., because their lordships failed to see how the cost of complying with the district surveyor's requirements could be part of the proper cost of the work executed for the making good of the war damage: the fact that the surveyor forbade the work of reinstatement to proceed unless his requirements were met was for this purpose irrelevant. While the war damage brought to light the unsound flank walls which the surveyor required reinstated, it was not the cause of their being repaired.

Their lordships did not disagree with the principle stated by Vaisey, J., recognizing that in order to reinstate war damage it might be necessary to interfere with part of the premises undamaged by the enemy, and that the proper cost of work so necessitated would be part of the cost of works executed for the making good of the war damage: but if the war damage was made good in a different form from that which existed before, by alteration or addition, whether by the desire of the owner or requirements of building bye-laws, only an amount equal to the proper cost of reinstating the property in the form in which it existed immediately before the damage occurred was payable.

Correspondence

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

P.A.Y.E. Audit

SIR, - It would be interesting to know to what extent the P.A.Y.E. auditors are authorized to look beyond wages records in view of the following recent queries:

- (1) What sub-contractors were being employed?
- (2) What were the sub-contractors' names and addresses?
- (3) Who balances the cash-book?
- (4) How are wages cheques drawn, tied in with the rest of the cash system?
- (5) Who reconciles the cash account?
- (6) Where is the private ledger?
- (7) What type of expenditure would be incurred under office expenses?

It would be of further interest to know how far these items are reported back to the Schedule D district concerned.

Yours faithfully,

TIE UP.

[The Inland Revenue had no comment to offer on this letter beyond referring to the wide terms of Regulation 31 of the statutory regulations relating to employments (S.I. 1950 No. 453) which reads as follows:

'31. *Inspection of employer's records.* - Every employer, when called upon to do so by any authorized officer of the Commissioners of Inland Revenue, shall produce to that officer for inspection, at the employer's premises, all wages sheets, tax deduction cards, and other documents and records whatsoever relating to the calculation or payment of the emoluments of his employees or the deduction of tax therefrom.'

- Editor.]

Decimal Currency et seq.

SIR, - Mr Ruddell's letter (November 16th issue) regarding decimalization of our currency system, prompts me to wonder how much time is spent by the average school child learning our antiquated systems of money, weights, measures and spelling. Reform of these four things might provide much

of the time required to teach everyone basic science; and thus help to raise the level of technical education in this country.

Yours faithfully,

P. L. PINDAR,

Organization and Methods Officer,
BRITISH BELTING & ASBESTOS LTD.

Cleckheaton, Yorks.

Tax Payable Abroad and E.I.R.

SIR, - With reference to the schedule showing the tax payable in various countries published in your issue of November 16th, I should like to point out that the amounts shown as tax payable in the United Kingdom have been calculated without taking into account the increased earned income relief. The figures for tax payable on income in excess of £2,000 should therefore be reduced to give effect to this increased relief.

Yours faithfully,

VICTOR FENTON.

South Croydon.

[The table referred to appeared in 'African Commentary' and as stated was originally published as part of an article in the *East African Economic Review* for July 1957. It was therefore compiled before the Royal Assent was given to the Finance Act, 1957, under which the increased earned income relief is granted. - Editor.]

Should the 'Divl.' be Taxed?

SIR, - Since the decision in the case of *Sharkey v. Wernher* it now appears that a taxpayer can make a profit out of himself and it is also standard practice that goods for own consumption should be reviewed on the basis of selling price. It occurs to me that because of the decision, co-operative society dividends ought now to be taxable. Perhaps one of your readers could point out to me the fallacy of this argument.

Yours faithfully,

SAMUEL DEAN.

Coventry.

TEACHING INDUSTRIAL LEADERSHIP

Peer's Comments at Scottish Institute's Dinner

The Institute of Chartered Accountants of Scotland held a dinner at *The Central Hotel*, Glasgow, on Tuesday, November 26th. Mr James T. Dowling, C.A., President of the Institute, was in the chair, and about 450 members and guests attended.

Among those present were the Right Hon. Lord Bilsland of Kinrara, K.T., M.C., LL.D., D.L.; the Right Hon. Lord Strathclyde, P.C., J.P., C.A., Minister of State for Scotland; Sir Archibald Forbes, G.B.E., C.A., Chairman, Iron and Steel Board; Bailie John Blackwood, Senior Magistrate, City of Glasgow; Mr W. H. Lawson, C.B.E., B.A., F.C.A., President, The Institute of Chartered Accountants in England and Wales, and

Prof. Stanley Alstead, M.D. (*President, The Royal Faculty of Physicians and Surgeons*); Prof. D. S. Anderson, C.A. (*Professor of Accounting and Business Method, University of Edinburgh*); Messrs W. O. Atkinson, M.B.E., F.I.M.T.A. (*President, The Institute of Municipal Treasurers and Accountants*); W. R. Ballantyne (*President, The Institute of Bankers in Scotland*); H. Barton, C.B.E. (*Solicitor of Inland Revenue, Scotland*); Stanley J. D. Berger, M.C., F.C.I.S. (*Director, The Institute of Cost and Works Accountants*); James Borsay, F.C.W.A. (*President, The Institute of Cost and Works Accountants*); Prof. Robert Browning, LL.B., C.A. (*Professor of Accountancy, University of Glasgow*).

Messrs L. F. Cheyney, F.I.M.T.A., F.S.A.A. (*Secretary, The Institute of Municipal Treasurers and Accountants*); Ian A. F. Craig, O.B.E. (*Secretary, The Society of Incorporated Accountants*); A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*); Sir Robert A. Maclean, C.A. (*President, Chamber of Commerce, Glasgow*); Prof.-Emeritus A. G. Murray, M.A., C.A.; Sir William S. Murrie, K.B.E., C.B. (*Secretary, Scottish Home Department*).

Messrs W. Stuart Orr, LL.B. (*Secretary, The Institute of Chartered Accountants in Ireland*); Ralph Risk, M.C. (*President, The Law Society of Scotland*); C. J. D. Shaw, Q.C. (*Dean, The Faculty of Advocates*); T. H. H. Warren, O.B.E., D.L. (*Chairman, Stock Exchange, Glasgow*); Sir Hugh Watson, W.S. (*Deputy Keeper of H.M. Signet*); Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (*President, The Society of Incorporated Accountants*).

Chartered Accountants in Industry

The toast of 'The Institute of Chartered Accountants of Scotland' was proposed by Lord Bilsland, who said:

'There are many examples of chartered accountants who have risen to leading places in industry. A chartered accountant's training instils many of the qualities required by a managing director. But also it may tend to narrow his outlook by too close a regard for figures, to the exclusion of many other things which matter in successful industrial management today. I would like to urge the need for a broad view if men are to understand the problems of industry today and fit themselves to take effective leadership in it.'

However mechanized or rationalized the nation may become, the human factor will always be of supreme importance in it. I commend to the consideration of the Institute to include in the curriculum of your summer school at St Andrew's some of the factors that make an industrial leader - the creation of morale, the provision of opportunity, the enlightenment of the rank and file to the need to make profit in order to make resources to meet the large sums involved in re-equipment, and to attract fresh capital.

'There is another point - the setting up of adequate public relations, which are so inadequate in many units of industry and in industry as a whole today.'

Lord Bilsland said The Institute of Chartered Accountants of Scotland made the proud claim of being the oldest accountancy body in the world, and he added:

'Your Institute, and the reputation of the Scottish Chartered Accountant, command universal respect not only in Scotland but throughout the world.'

Lord Bilsland said the formation of larger units in industry, and the financial implications involved, the increasing intensification of world competition, and the need for cost accountancy, invoked the services of the chartered accountant in an ever more intimate and influential form.

Replying to the toast, Mr J. Dowling said there could be no one who had taken a deeper or more practical interest in the development of Scotland's economy over the past twenty-five years or more than Lord Bilsland, who had made an interesting suggestion for a subject which might find a place in the summer school curriculum, and he would have pleasure in commending the suggestion to the convenor.

Meeting the Challenge of the Age

Six years had now elapsed, said Mr Dowling, since the three separate bodies of chartered accountants in Edinburgh, Aberdeen and Glasgow were merged into one Scottish institute.

'I think we can say that we have made good progress over these six years in the progress of getting together. Erstwhile members of the separate bodies have responded splendidly to the need to set aside separate loyalties.' (*Applause.*)

Some of the arrangements made and the decisions taken in the early stages of the amalgamation were necessarily interim in their nature, and certain adjustments had already been made. The adoption early this year of a completely new and up-to-date set of rules was an example.

Mr Dowling said we were living in an age of great scientific and technical progress. We had the age of mechanization, and now we had automation. The electronic computer was already here and its use, meantime comparatively restricted, might well become more widespread.

'We recognize that this kind of development may have an increasing impact on us as accountants,' added Mr Dowling. 'In past years, the Scottish chartered accountant has proved himself adaptable to the many new situations he has had in the past. I am hopeful we can, and will, adjust our conceptions and techniques to such an extent as may be necessary to meet the challenge of these developments.'

'These developments, important as they are, will not supplant the man or woman of trained and independent mind whose advice is sought on accountancy, taxation and commercial problems which cannot be committed to a machine for solution. This kind of service cannot, and I hope never will, be replaced by a push-button process.'

Proposing the toast of 'The City of Glasgow', Sir Archibald Forbes referred to a proposed steel strip mill to be established in Scotland, the siting of which was the subject of some controversy, and he said:

'If a works of this nature - a new works - is to be constructed, it is quite essential that it should be sited to the best advantage not only in relation to the initial scale of

production but making allowance for probable expansion.

'In determining where that balance of advantage lies there are many factors to be weighed and considered. I can at least assure you that these are being very carefully studied at the present time before any final decision is arrived at.'

Replying, Bailie John Blackwood, assured Sir Archibald that Scotland would be ready and willing to take on the strip mill. His inquiries indicated that light industrial firms who had come to the Glasgow area in the past year or two were entirely satisfied with the type of labour and the enthusiasm of the work-people.

Replying to the toast of 'Our Guests', which was proposed by Mr R. Ian Marshall, B.COM., C.A., Vice-President of the Scottish Institute, Mr Lawson commented on the 'extremely happy' relationship which existed between the English and the Scottish Institutes.

'I can say with confidence', he said, 'that it has never been happier. We are looking forward to working with you and with our Irish friends on the joint standing committee which has been set up under the integration schemes, and I firmly believe that our joint efforts will be of very great benefit both to the profession and to the public.'

DINNER IN HULL

Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants

There were nearly 200 guests at the dinner of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants, held on November 29th, at The Guildhall, Hull. The company was received by Mr F. S. Mowforth, F.C.A., President of the Society, and by Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute.

Among the guests were The Rt. Rev. G. F. Townley, M.A., Lord Bishop of Hull, Dr H. I. Loten, M.B.E., LL.D., J.P., Pro Chancellor, The University of Hull, and

Messrs J. H. Bayley (*President, Hull and District Centre of the Institute of Bankers*); D. H. Bedford (*H.M. Inspector of Taxes, Goole District*); G. Blakeborough (*President, Lincolnshire Incorporated Law Society*); P. Chapman (*Assistant Editor, 'The Accountant'*); J. M. S. Coates, M.B.E., F.C.A. (*President, Northern Society of Chartered Accountants*); R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*).

Messrs W. Newham Dawson (*President, Scarborough Chamber of Trade*); F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); D. C. Stuart Downs, F.C.A. (*Vice-President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); J. R. Bewlass (*President, Hull Incorporated Chamber of Commerce and Shipping*); G. N. Gillingwater, F.A.C.C.A., A.S.A.A. (*President, Hull and District Society, the Association of Certified and Corporate Accountants*); E. F. Graham, M.B.E., A.C. (*President, Hull Incorporated Law Society*); J. Haydon N. Glen, LL.B. (*Town Clerk of Kingston upon Hull*); T. C. Gray, F.C.I.S. (*President, Hull and District Branch, Chartered Institute of Secretaries*); P. D. Irons, B.COM., F.C.A. (*President, South Eastern Society of Chartered Accountants*).

Messrs G. A. Jarrold (*H.M. Inspector of Taxes, Hull 4th District*); Brynmor Jones, PH.D., SC.D. (*Vice-Chancellor, University of Hull*); S. Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); G. W. Knight, F.C.A. (*President, Hull and District Chamber of Trade*); F. M. Mowforth, A.C.A., F.S.A.A. (*President, Incorporated Accountants, Hull and District Society*); D. N. O'Sullivan (*Stipendiary Magistrate of Kingston upon Hull*); J. Palmer, F.C.A. (*President, Chartered Accountants' Students' Society of Kingston upon Hull*); C. A. Pogson (*H.M. Inspector of Taxes, Hull (1st District)*); C. H. Pollard, C.B.E., F.I.M.T.A., F.S.A.A. (*City Treasurer of Kingston upon Hull*).

Col. A. V. Rhodes, M.C., T.D., J.P. (*Registrar of the Hull County Court*); Messrs A. B. Scott (*H.M. Inspector of Taxes, Hull (3rd District)*); Norman P. Seaton, F.R.I.C.S., A.I. (*President, Hull Institute of Estate Agents*); D. H. Smith, A.C.A. (*Vice-President, East Anglian Society of Chartered Accountants*); J. M. Smith, A.C.A. (*Chairman, Frimsby and North Lincolnshire Branch, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*);

D. Steele, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); Charles M. Strachan, O.B.E., F.C.A. (*Member of the Council of the Institute*); C. C. Taylor, J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*); N. W. Thirtle, F.C.A. (*Chairman, Lincoln and South Lincolnshire Group, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); C. G. A. Try (*H.M. Inspector of Taxes, Hull (2nd District)*); Councillor T. Wilcock, J.P. (*Lord Mayor of Kingston upon Hull*); and Mr E. Kenneth Wright, M.A., F.C.A. (*Chairman, London and District Society of Chartered Accountants*).

The Lord Bishop of Hull, proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said it might be that he had been chosen for the toast because it was barely four weeks since the marriage of a comparatively young couple, the Institute and The Society of Incorporated Accountants. He was satisfied with their family histories and certain that they would help and comfort each other and increase and multiply. (*Laughter and applause.*) They had had to win their way to recognition as a very honourable profession.

The Indispensable Accountant

Since the days when it was said - by a banker - that no self-respecting person would be seen with an accountant, they had caught up, until now no other profession, certainly no business concern, could do without them. Their growth had carried with it the high standards of integrity laid down in the Royal Charter which was so strictly enforced. The societies had justified themselves and the new regime had begun auspiciously.

Replying to the toast, Mr Lawson referred to the scheme of integration and said that, taking the profession as a whole, he was hopeful that it would help recruitment because it was an essential part of the scheme that there should be an increase in the permitted number of articled clerks. He continued:

'Up till now, a substantial proportion of the new entrants into the accountancy profession have had to be recruited on the basis that the highest qualification, namely our own, was not available to them even though they might be trained in our own offices. Now we shall be able to offer the highest qualification to all who show themselves worthy of it.'

Mr Lawson said that he was frequently asked about prospects in the profession. In his view, such prospects were today better than ever. One reason for this was that the profession was not circumscribed by any rigid boundaries. He went on:

'We have to satisfy the needs of our clients in industry and commerce and these needs are changing and increasing. There is, for example, the great new field of management accounting, cost accounting, office organization and the like. We are being asked to an increasing extent for our advice and assistance.'

The toast of 'Our Guests' was proposed by Mr Mowforth. Dr H. I. Loten replied, and he paid tribute to those responsible for the integration of the two great accounting societies which had taken place. They had rendered a great service to the country.

LONDON INCORPORATED ACCOUNTANTS' DINNER-DANCE

What was probably the last corporate function of the Incorporated Accountants' London and District Society took place on Thursday, November 28th, when a dinner-dance was held at *The Park Lane Hotel*, London. Mr A. C. Simmonds, Chairman of the District Society, presided, and with Mrs Simmonds, and Sir Richard Yeabsley, C.B.E., and Lady Yeabsley, welcomed the members and guests on arrival.

Among those present were the Rt. Hon. Ernest Marples, M.P., H.M. Postmaster-General, who is a member of the Society, and Mrs Marples; Mr Edward

Baldry, Vice-President of the Society; Mr Bertram Nelson, C.B.E., J.P., a Past President of the Society and Mrs Nelson; Mr Alexander Garrett, M.B.E., M.A. a former Secretary of the Society, and Mrs Garrett Mr I. A. F. Craig, C.B.E., B.A., Secretary of the Society, and Mrs Craig; Mr C. A. Evan-Jones, M.B.E., Deputy Secretary of the Society.

Our photograph shows (*left to right*): Sir Richard Yeabsley, Lady Yeabsley, Mr Simmonds and Mrs Simmonds.



WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY ANNUAL DINNER IN LONDON

The annual dinner of the Women Chartered Accountants' Dining Society was held at *The Hotel Rubens*, London, last Saturday. Mrs E. M. Wright, A.C.A., Chairman of the Society, presided, and those present included: Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mrs Lawson; Mrs Jacquetta Hawkes, O.B.E.; Dr A. E. Mourant, M.A., D.PHIL., D.M., M.R.C.P.; and

Miss Phyllis Ridgway, B.A., J.P., F.S.A.A.; Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (*President, The Society of Incorporated Accountants*), and Lady Yeabsley; Mr D. V. House, F.C.A. (*a Past President and a member of the Council of the Institute*), and Mrs House; Mr A. S. MacIver, M.C., B.A. (*Secretary of the Institute*), and Mrs MacIver; Mr Derek du Pré (*Joint Secretary, The Institute of Cost and Works Accountants*) and Mrs du Pré.

Proposing the toast of 'The Institute of Chartered Accountants', Mrs Wright recalled the remark of the President last year on the question of taking more than two articulated clerks, 'Wait and see', and she added that none of them could then foresee the plans that were announced within a few weeks. Mrs Wright continued:

'I refer, of course, to the scheme of integration between The Society of Incorporated Accountants and the Institute. Perhaps there are some here who will be, as I am, glad that his word "integration" will soon drop out of our vocabulary. I think it is an ugly word which has a very hard and unpleasant sound. There are words in our language which do not always correspond in sound with the meanings they convey.'

Warm Welcome to Members of the Society

Mrs Wright went on to say that they should all remember the enormous amount of work the merger had put on to the staff of the Institute. For several years they had been concerned with the preparation of the scheme, with the submission of it to members, with the passing of it through all its stages, and now they were faced with the task of admitting the large number of new members to the Institute.

'All this work has to be done with the ordinary work of running the Institute and they still continue to give courtesy and helpful service to all members.

'I think now that we can stop thinking of this integration, it is rather pleasant to turn to thinking of warmly welcoming those members of The Society of Incorporated Accountants who will shortly become members of the Institute. In this connection we are pleased to have as our guests Sir Richard Yeabsley and Lady Yeabsley.

'I think our pleasure that he is our guest is a token of that pleasure we shall shortly have of inviting all the women members of his Society also to become members of this Dining Society.' (*Applause.*)

The Dining Society was formed in 1945 and its first chairman was Miss Ethel Watts, who occupied a very special place in their affections for all she had done for the Society and for the profession.

Another highlight of 1957, said Mrs Wright, was the Seventh International Congress of Accountants in

Amsterdam. Miss Phyllis Ridgway, who was a member of the Council of The Society of Incorporated Accountants, attended as a delegate, and there were ten women members of the Institute who went to the Congress.

Mrs Wright said that one of the results of integration was that it was now possible for members of the Institute, if they wished, to accept more than two articulated clerks. The Institute was very alive to the need for recruitment to the profession and they were up against severe competition. There was obviously some ignorance - particularly in girls' schools - of the opportunities for women in accountancy. The useful booklet which had been issued by the Institute to schools and education authorities should do much to help.

Women Members' Important Part

Replying, Mr Lawson said he agreed with Mrs Wright that 'integration' was a word that might well be forgotten.

'Indeed, he said, 'the whole scheme of integration can soon be forgotten so that people can forget that we and the Society were ever two separate bodies.'

Mr Lawson said he understood that there were now 199 women chartered accountants - a number that will be considerably increased by integration. He was pleased to see Miss Ridgway present so that they could safely hoist the total to 200. They were starting on a new chapter in the history of their great profession and he was sure that the lady members would have an important part to play in it.

'If you think your numbers are small, remember that they are about half of what the total membership of the Institute was in 1880. If you can keep that proportion with the same time-lag you will have in another seventy-seven years' time - in 2034 - half of our present membership of 30,000, namely, 15,000. That calculation just shows what accountants can do with figures and statistics when they try.' (*Laughter and applause.*)

Following their practice of former years, the Dining Society had invited as a principal guest a representative of another calling, in the person of Mrs Jacquetta Hawkes, O.B.E., the eminent archaeologist, who was welcomed by Miss M. Smullen, A.C.A. Proposing the toast of 'Archaeology'. In a delightfully entertaining speech, Miss Smullen drew a comparison between accountancy and archaeology, because archaeologists accounted for the past.

Replying to the toast, Mrs Hawkes said people had told her it was remarkable to be a woman archaeologist but she thought it was even more remarkable to be a woman chartered accountant.

Miss D. N. Hamlyn, F.C.A., proposed the toast of 'The Guests', and Dr Mourant, who replied, said he did not realize that there were such a large number of ladies in 'this very tough profession'. But, he added,

'It was really - if you will forgive me - an enormous surprise, and a very great pleasure to see so much charm and beauty as I have found here tonight.'

Notes and Notices

PERSONAL

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co, Chartered Accountants, announce with deep regret the death, on November 28th, of Mr FRANK ALBERT LORD, F.C.A., after a short illness. Mr LORD joined the London office in 1916 and was admitted a partner in 1942.

MESSRS WATERWORTH, RUDD & HARE, Chartered Accountants, of Blackburn, announce with deep regret the death on November 28th, 1957, of their senior partner, Mr GUY WATERWORTH, F.C.A., who had been associated with the firm for forty-eight years.

MESSRS WILLIAM KIRKUP & Co, of Saville House, 1 Saville Row, Newcastle upon Tyne, announce that as from December 6th, 1957, they are removing their offices to 37 Jesmond Road, Newcastle upon Tyne. Telephone: 81-0395.

MESSRS SMITH & GARTON, Accountants, of 2 South Square, Gray's Inn, London, W.C.1, announce that as from December 1st, 1957, the partnership has been dissolved by mutual consent - Mr G. G. SMITH, F.C.A., M.A., and Mr R. V. GARTON, F.C.A., have entered into partnership with Mr J. W. MARTIN, F.C.A., F.T.I.L. (of MARTIN, WILLIAMSON & Co), and Mr A. J. CHANDLER, A.C.A., and will practice under the firm name of MARTIN, SMITH & GARTON, Chartered Accountants, at Abford House, Wilton Road, London, S.W.1. Mr F. PHILLIPS, F.S.A.A., and Mr H. G. HAYMAN, F.C.A., have entered into partnership with Mr H. L. BLOOM, B.COM., F.C.A., and will practice under the firm name of BLAIR, SANDERS & Co, at 2 South Square, Gray's Inn, London, W.C.1.

MESSRS SMITH & GARTON, Chartered Accountants, of 23 John William Street, Huddersfield, announce that they have admitted into partnership Mr RALPH E. HINCHLIFFE, A.C.A., A.C.W.A., and Mr DEREK N. ROSLING, A.C.A., as from December 1st, 1957. Both incoming partners served their articles with the firm, the name of which will remain unchanged.

PROFESSIONAL NOTES

Mr H. Harwood, A.A.C.C.A., A.C.I.S., A.T.I.L., has been appointed secretary and chief accountant of The Ellern Paper Co Ltd and associated companies.

Mr J. M. Drummond, A.S.A.A., has been appointed chief financial officer of the Central Electricity Generating Board.

OBITUARY

FRANK ALBERT LORD, F.C.A.

It was with much regret that we learnt of the death, at the age of 65, of Mr Frank Albert Lord, F.C.A., after a short illness.

Mr Lord was educated at Bishop's Stortford School and sat for the Preliminary examination of the Institute in 1910, being awarded First Place and the Deloitte prize. He began his career in accountancy under articles with the firm of Gain Mills & Co, of New Broad Street, London, and was placed fourth in his Intermediate examination. He sat for his Final examination in 1915 being awarded First Place, the Institute Gold Medal and the 'W. B. Peat' prize. On completion of his articles he joined the staff of Messrs Deloitte, Plender, Griffiths & Co, and was admitted a partner in that firm in 1942 and remained a partner until his

death. He had thus completed over forty-one years service with his firm.

Mr Lord was a Freemason and a founder-member and Past Master of Hutton Lodge. He took an active interest in All Saints Church, Hutton, and was honorary treasurer of that church for many years.

He found his greatest pleasure in a quiet home life and his hobbies were such as could be enjoyed at home. He had a wide knowledge of historical subjects and took a keen interest in the techniques of radio, weaving and photography.

CITY DISCUSSION GROUP

The next meeting of the Chartered Accountants City Discussion Group will be held next Wednesday, at *The Cock and Bottle*, Laurence Pountney Hill, at 6 for 6.30 p.m. The topic for discussion will be 'Taxation anomalies'. New members will be welcome - particularly members of The Society of Incorporated Accountants.

STOKE-ON-TRENT

CHARTERED ACCOUNTANTS' DINNER

The third annual dinner of the Stoke-on-Trent branch of the Birmingham and District Society of Chartered Accountants was held at *The North Stafford Hotel*, Stoke-on-Trent, on Tuesday, November 19th. The company of 126 members and guests was received by the chairman of the branch, Mr A. B. SNOW, F.C.A., together with Mr A. S. H. DICKER, M.B.E., F.C.A., the Immediate Past President of the Institute, and among those present were:

Lieut.-Col. C. M. G. Boote (*President, British Potter Manufacturers' Federation*); Messrs R. B. Leech, M.B.E. T.D., F.C.A. (*Member of the Council of the Institute*); S. Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); J. L. Thorpe (*H.M. Inspector of Taxes*); R. A. Hamilton, F.S.A.A. (*President, Incorporated Accountants' District Society of North Staffordshire*); F. A. Barnes (*President, North Staffordshire and District Law Society*); W. C. Beal (*President, North Staffordshire Centre Institute of Bankers*); J. W. Griffiths (*Immediate Past President, North Staffordshire Insurance Institute*); and R. Statham, J.P., F.A.C.C.A. (*President, North Staffordshire and District Society of Certified and Corporate Accountants*).

The toast of 'The Institute of Chartered Accountant in England and Wales' was proposed by Lieut-Col Boote, who said that industrialists had the greatest respect for the Institute and its members, who were making an enormous contribution to industry and the country. Industrialists, he added, knew that they could rely on chartered accountants for good advice common sense and commercial knowledge.

Replying, Mr Dicker spoke of the integration with The Society of Incorporated Accountants and the problem that had arisen. He mentioned that during the last few weeks, the Institute and the Society had been studying administrative arrangements and stated that it was hoped that the new set-up would be in working order by the summer of 1958. It was also hoped to complete the registration of new members of the Society by the March Council meeting next year. Mr Dicker congratulated the branch on its liveliness and paid tribute to the work of its officers.

A toast to 'The Guests' was proposed by Mr Snow and Mr F. A. Barnes and Mr G. L. Greaves responded

IN PARLIAMENT

INCOME TAX: SCHEDULE E EXPENSES

Mr BRAINE asked the Chancellor of the Exchequer if he is yet able to give an indication of the result of the discussions, concerning expenses under Schedule E of the Income Tax Act, which he has been having with professional and other bodies, following the undertaking given in Committee on July 2nd, 1957.

Mr P. THORNEYCROFT: Not yet.

Hansard, Nov. 26th, 1957. Written Answers. Col. 108.

£ STERLING: VALUE

Mr DE FREITAS asked the Chancellor of the Exchequer whether he is aware that, taking the internal purchasing value of the £ sterling as 20s in October 1951, it had declined to 18s 5d by October 1953, and to 17s by October 1955; and what was the comparable figure for October 1957.

Mr P. THORNEYCROFT: Yes, sir, 15s 8d.

Hansard, Nov. 26th, 1957. Written Answers. Col. 108.

TAXATION AND SOCIAL SERVICES

Mr OSBORNE asked the Chancellor of the Exchequer the estimated amount currently paid by private industry in taxation; which social services cost a similar amount; and how much would the tax on twenty cigarettes and a pint of beer have to be increased, respectively, to produce the same amount.

Mr P. THORNEYCROFT: The total amount of United Kingdom tax payable in respect of the 1956 profits of companies, including tax on their distributions to shareholders, is estimated at about £1,400 million. This amount of tax is approximately equal to central Government current expenditure in 1956 on education, health, national insurance, national assistance, war service and non-contributory pensions, family allowances and milk and welfare foods.

As regards the last part of the question, I cannot make estimates of the effect on the Revenue of such hypothetical increases in duty.

Hansard, Nov. 27th, 1957. Written Answers. Col. 131.

THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON

ANNUAL DINNER

The annual dinner of The Chartered Accountant Students' Society of London, to be held at *Grosvenor House*, Park Lane, London, next Monday, will be attended by over 1,200 guests.

Alderman Sir Harold Gillett, M.C., F.C.A., President of the Students' Society, will preside and the guest speakers will be:

General Sir Nevil C. D. Brownjohn, G.B.E., K.C.B., D.M.G., M.C., A.D.C., Quartermaster-General to the Forces; Mr R. McKinnon Wood, O.B.E., M.A., F.R.A.E.S., J.P., The Rt. Hon. the Chairman, London County Council; Sir David Keir, M.A., Master of

Balliol College, Oxford, and Mr W. H. Lawson, C.B.E., B.A., F.C.A., President, The Institute of Chartered Accountants in England and Wales.

NEXT WEEK'S MEETINGS

The following meetings of the London Students' Society will be held during next week:

Wednesday, 5.30 p.m., at the Library: Debate on the motion, 'This country should blow its own trumpet'.

Thursday: Visit to Westminster Bank (limited number).

Friday: Visit to the Royal Mint (limited number).

INTER-AMERICAN ACCOUNTING
CONFERENCE

The fourth inter-American conference of accounting, which was organized this year by the National Society of Accountants of Chile and the National Register of Accountants of Chile, was held in Santiago, from November 15th-23rd. The conference was intended to strengthen the relations between the professional accountants of the American countries and to study and discuss common problems such as teaching methods and the standardization of accountancy terminology.

Professional organization was discussed with particular reference to the possible creation of a permanent inter-American organization. Accounting problems referred to included uniformity in the form of presentation of financial statements in American countries, and the revaluation of assets arising from inflation; a system of constant or annual revaluations related to a scale or variable factor was also discussed. Other important topics considered by the conference were auditing and the training of the accountant.

RATE COLLECTION RETURN

The *Return of Rate Collection*, which is now produced in alternate years by The Institute of Municipal Treasurers and Accountants, contains particulars of arrangements made by authorities for rating owners compulsorily and voluntarily, and shows the proportions of the rates due from owners and paid subject to discount. The Return also gives an analysis of the losses on collection and arrears, the figures being expressed as percentages of the total amount to be collected.

A new feature of this issue is the inclusion of the cost of collection per 100 hereditaments; the highest average is in the metropolitan boroughs and the City of London at £57.91 per 100 hereditaments. In county boroughs the average is lowest with £31.51 while the average for all authorities is £37.97. Another new feature of this return is the inclusion of the reliefs to charitable and other bodies under Section 8; Rating and Valuation (Miscellaneous Provisions) Act, 1955, which are shown as percentages of the total amount to be collected.

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THE INSTITUTE OF COST AND WORKS ACCOUNTANTS LUNCHEON PARTY

The President of The Institute of Cost and Works Accountants, Mr James Borsay, F.C.W.A., gave a luncheon party last Tuesday at the Institute's headquarters, 63 Portland Place, London, W1. Among those present were:

Mr Roland Bird (*Deputy Editor, 'The Economist'*); Mr E. Emmerson, F.S.A.A., F.C.W.A., and Mr H. J. Furness, F.C.W.A. (*Vice-Presidents of the Institute*); Sir Kenneth Hague, M.I.MECH.E., M.I.E.E. (*Deputy Chairman, Babcock & Wilcox Ltd*); Sir Graham Hayman (*Immediate Past President, Federation of British Industries*); Sir Norman Kipping, J.P. (*Director-General, Federation of British Industries*); Mr P. J. Mantle, C.M.G. (*Assistant Secretary, Insurance and Companies Department, Board of Trade*); Col. A. T. Maxwell, T.D. (*Chairman, Powers-Samas Ltd*); Mr Ian T. Morrow, C.A., F.C.W.A. (*Immediate Past President of the Institute*); Vice-Admiral Sir Charles Norris, C.B.E., D.S.O. (*Director, British Productivity Council*); Mr A. Tuck (*Partner, Sydney Morse & Co, Solicitors*); Mr Stanley J. D. Berger, M.C., F.C.I.S. (*Director of the Institute*); and Mr Derek du Pré (*Joint Secretary of the Institute*).

BRUSH GROUP ACCOUNTANTS' CONFERENCE

A conference of accountants in the Brush Group of companies, now part of the Hawker Siddeley Group, took place in London recently. The conference was opened on Friday morning, November 22nd, by Mr Ian T. Morrow, C.A., F.C.W.A., managing director of The Brush Group Ltd, who referred to the increasing importance of industrial accountancy in the competitive conditions now prevailing throughout the world.

Mr D. N. Dow, B.COM., C.A., A.C.W.A., then presented the first half of a paper on "The practical preparation of annual budgets", dealing with the forecasting of sales and budgeting of purchases, capital expenditure and the cash budget. Thereafter, group discussions were held, followed by an open session. In the afternoon, Mr Dow completed his description of budgeting procedure covering the expense budgets, variances and the budgeted profit and loss account and balance sheet. This was again followed by group discussions and reports.

In the evening a dinner was held in the Monico Restaurant, Piccadilly; among those present were:

Mr D. S. A. E. Jessop, Mr P. C. Sharp and Mr M. Tattersfield (*Directors of The Brush Group Ltd*); Mr J. K. Colley, C.A. (*Group Chief Accountant, Hawker Siddeley Group*); Mr C. W. Flint, A.C.A. (*Chief Accountant, East Midlands Electricity Board*); Mr C. A. French, A.S.A.A., A.I.M.T.A. (*Deputy Chief Accountant, Central Electricity Authority*); and Mr F. T. Hunter, A.C.A., F.C.W.A. (*of Messrs Robson, Morrow & Co*).

The conference concluded on November 23rd with a paper by Mr R. Deans, A.C.W.A., on organization and methods work with special reference to case studies.

The chairman of the conference was Mr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., A.C.I.S., M.B.I.M.

BRITISH COUNCIL REPORT, 1956-57

The report for 1956-57 of the British Council records the Council's satisfaction that, as a result of the review of overseas information services by Dr Charles Hill, the Cabinet Minister responsible for co-ordinating them, the Government has accepted about nine-tenths of the Council's proposals for increased activities, to be financed by a gradual rise in grants from about £3½ million to nearly £4½ million a year. The total gross expenditure of the Council during 1956-57 was £3,692,755, an increase of nearly £485,000 on the previous year.

The report states that widespread attention and respect for Britain have been secured overseas by the opening of the first full-scale nuclear power station at Calder Hall. Such publicity needs to be supported by a sustained flow of information, it adds, and an increasing proportion of the Council's work consists in helping to disseminate knowledge of British scientific achievement and serving as a link between British experts and their opposite numbers overseas.

WORK SIMPLIFICATION IN THE OFFICE

The department of Management Studies of The Polytechnic, Regent Street, W1, has arranged to begin its twenty-seventh course on 'Work simplification in the office', on Tuesday, January 14th, 1958. These courses were started six years ago, and have since been attended by more than three hundred men and women, including many company secretaries, accountants, cost accountants, office managers, production controllers and organization and methods officers.

The course deals systematically with the application of work study to all kinds of clerical procedures, in order to simplify processes, to increase efficiency, and to reduce cost. It involves attendance on one morning a fortnight for a session, that is, about eighteen attendances. Full information may be obtained from the Registrar, The Department of Management Studies, St Katharine's House, 194 Albany Street, London, NW1.

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INLAND REVENUE APPROPRIATION ACCOUNTS

THE Appropriation Accounts for the Inland Revenue Department for 1956-57 contain interesting reading on a number of topics. Perhaps the most interesting are the remarks of SIR FRANK TRIBE, the Comptroller and Auditor-General, on the subject of penalties imposed upon persons who neglect to carry out the obligations laid upon them, in relation to estate duty, by Section 8 of the Finance Act, 1894. These remarks are preceded by observations about income tax penalties, a subject which has been much ventilated in the past few years, in contrast with estate duty penalties which are hardly ever mentioned except in textbooks.

Section 8 (3) of the 1894 Act lays upon the executor the duty to specify, in appropriate accounts annexed to the Inland Revenue affidavit, all the property in respect of which estate duty is payable upon the death of the deceased. This he must do to the best of his knowledge and belief. The same subsection also makes him 'accountable' for the estate duty in respect of all personal property, wherever situate, of which the deceased was 'competent to dispose'. But he is not to be 'liable' for duty in excess of the assets received by him as executor, or which he might have received but for his own default or neglect.

Of course, personal property of which the deceased was competent to dispose by no means covers all the property chargeable on the death. Section 8 (4) provides that where property 'passes' on the death and the executor is not 'accountable' for the estate duty on it, certain other persons are 'accountable'; these are:

- (a) a person to whom the property passes for any beneficial interest;
- (b) a trustee, guardian, committee, or other person in whom any interest in the property, or the management of the property, is at any time vested;
- (c) a person in whom the property is vested in possession by alienation or other derivative title.

The Inland Revenue can impose additional obligations, not only on all accountable persons but also on every person whom they believe to have taken possession of or administered any part of the 'estate' in respect of which duty is leviable, or any part of its income. These additional obligations consist in making and verifying a statement of such particulars and such evidence as the Inland Revenue require relating to *any* property which the Revenue have reason to believe to form part of that estate (Section 8 (5)).

A person who wilfully fails to comply with any of the above provisions is liable to pay £100 or a sum equal to double the amount of the estate duty, if any, remaining unpaid for which he is accountable (Section 8 (6)). It follows that only an accountable person can be subject to a penalty greater than £100.

One well-known textbook on estate duty stated that under the then practice penalties were not claimed, but a supplement withdrew this statement and observed that it could not be assumed that penalties would not be claimed in appropriate cases. The Comptroller and Auditor-General now says in his report that no case can be traced in which proceedings for penalties have been taken under Section 8 (6). On the other hand, his officers had discovered that non-disclosure of property was quite common on the original rendering of accounts. The omitted property is usually voluntarily disclosed later, but not infrequently the omission is only brought to light by Inland Revenue officers.

Inquiry was made by the Auditor-General as to why the penalties were not enforced and whether the existing practice provided an adequate deterrent to non-disclosure. The Inland Revenue informed him in June 1955 that there had been certain doubts about the legal position, but that they were now advised that where an accountable person could be shown to have deliberately omitted property from the accounts annexed to the Inland Revenue affidavit, subsequent payment of the arrears of duty and interest thereon did not purge the offence, and penalty proceedings would be competent. It was proposed to base future practice on this advice. Where omitted property has been revealed by the action of the Inland Revenue, the parties would be invited to explain the non-disclosure, and in suitable cases a penalty would be claimed in addition to the duty and interest, where the evidence was sufficient to show that the non-disclosure was wilful.

Since that reply, the Revenue have considered about sixty cases with a view to inflicting penalties, but in none of them was it decided to make any claim. In many cases penalties were barred by lapse of time under Section 22 of the Inland Revenue Regulation Act, 1890, in that two years had elapsed since the date the penalty was incurred. In other cases doubts had arisen on the

legal position, having regard to the wording of the existing forms of Inland Revenue affidavit. New forms of affidavit were made available to the public on August 1st, 1957, but the Revenue told the Auditor-General that legislation would be required in order to make their power of imposing penalties fully effective.

Turning now to income tax penalties, the report shows a very different picture. The following table gives the results of the investigations completed in each of the four years ended March 31st, 1957:

<i>Year ended March 31st</i>	<i>Number of cases</i>	<i>Total charges raised £</i>	<i>Penalties included £</i>
1957	15,511	22,549,246	9,426,295
1956	16,116	22,661,950	8,490,973
1955	19,663	20,587,922	8,420,419
1954	18,144	20,381,870	7,555,342

These figures do not include minor settlements effected by local Inspectors and relating to interest, allowances, etc., which amounted to £940,002 in the final year. A remarkable aspect of the latest figures is that though the fall in the number of cases since 1955 has continued, as well as in the total charges raised, the penalties exacted have actually increased, and by nearly £1 million. It is perhaps fair to infer from this that the attitude of the Inland Revenue to evasion is hardening. In this connection it is noteworthy that the amounts remitted or written off in 1956-57, totalling just under £3 million, were less than in the previous year by £635,516. The breakdown is as follows:

<i>Remissions</i>	<i>£</i>
On grounds of poverty	133,949
On grounds of equity	263,672
Miscellaneous: amount recoverable not sufficient to justify proceedings etc.	268,937
<i>Amounts irrecoverable</i>	
Insolvency	1,718,265
Composition settlements	49,727
Realization of securities	11,634
Taxpayer gone abroad or untraceable etc.	529,280
	<u>£2,975,464</u>

Over £2 million of this total was for income tax; of the other taxes, surtax and excess profits tax accounted for over £300,000 each, and death duties for over £100,000.

RIGHTS AND DUTIES OF AUDITORS

AN interesting case¹ touching on the rights and duties of auditors was decided recently in the House of Lords. In the course of his judgment, LORD DENNING said that an auditor was not to be confined to the mechanics of checking vouchers and making arithmetical calculations. He was not to be written off as a professional 'adder-upper and subtractor'. On the other hand, LORD SIMONDS, in a dissenting speech, said an auditor was a watchdog, not a bloodhound.

On May 17th, 1950, the plaintiff in the case granted to the defendant a full but non-exclusive sub-licence, on certain terms as to royalties, for the manufacture and sale of ball-pointed writing instruments and refills which were wholly or partially protected by certain letters patent. Clause 7 of the 'deed of terms' executed on the same day provided that the defendant should keep all necessary books of account relating to the sale or distribution of the patented articles and containing such complete entries as might be necessary or appropriate for computing royalties, and should, when required by the plaintiff, produce its books to the plaintiff's auditors and give to the auditors all such other information as might be necessary or appropriate to enable the amount of the royalties payable to be ascertained, provided that such auditors should, if so required by the defendant, give an undertaking to treat all such information as confidential information disclosed only for the purpose of verifying the amount of the royalties.

In 1954 a chartered accountant carried out an inquiry for the plaintiff under clause 7, for the purpose of ascertaining the royalties payable from April 1st, 1953, to June 30th, 1954. The defendant produced documents concerning writing instruments and refills marketed by it and described as 'Type A' which were within the relevant patent field. These documents also referred to sales of other writing instruments and refills described as 'Type B' and 'Type C', which were stated not to have been included in the returns because they were outside the relevant patent field. The accountant then asked for

specimens or specifications of Types B and C so as to satisfy himself of the correctness of these contentions. The defendant refused, on the ground that it was not obliged to give information of its business outside the patents.

The construction placed upon clause 7 by the accountant was upheld by a majority of three to two in the House of Lords, reversing a unanimous decision against it in the Court of Appeal, and reaffirming a decision of HARMAN, J. Thus the conclusion which prevailed was supported by only four out of nine judges, which emphasizes the chanciness of legal proceedings.

In one of the speeches in favour of the plaintiff, LORD MORTON OF HENRYTON said the auditor could not ascertain the amount of royalties payable without ascertaining whether the articles called by the defendant Type B and Type C were or were not within the patent. The word 'verifying' afforded a strong indication that he was not bound to accept the statement of the defendant, which was merely a statement of the defendant's opinion.

It was hard to see, said LORD MORTON, why the defendant should have refused to supply specimens of Type B and Type C to the auditor. All the auditor would have to do was to show the articles to a patent agent, hand him the patents, and ask him whether either of the two types came within any of the patents. He could not have been revealing any information which was not already in the possession of the public.

If the words of clause 7 were read in their ordinary meaning the auditor was entitled to ask for this information and the defendant committed a breach of contract in refusing it. By using the words 'all such *other* information' the parties made it clear that the auditor was entitled to ask for and receive information which did not appear in the defendant's books of account, and there was inserted a clear limitation on the extent of that information; it must be necessary or appropriate to enable the amount of the royalties payable to be ascertained. In contrast, LORD SIMONDS, dissenting, said it was not part of the professional expertise of an accountant to determine whether or not an article was protected by a patent.

¹Fomento (*Sterling Area Ltd v. Selsdon Fountain Pen Co Ltd*). *The Times*, December 5th, 1957.

VARIATION OF TRUSTS BILL

A PRIVATE member's Bill to extend the Court's power to vary trusts last week secured a second reading in the House of Commons. Broadly speaking, it seeks to make that alteration in the law which was recommended in the report of the Law Reform Committee which we examined in our issue of November 30th.

The Bill, which is confined to England and Wales, has only one operative clause. Its declared object is to benefit three categories of persons who have or may have an interest in trust property, namely:

- (a) infants and persons incapacitated in other ways;
- (b) persons who may in the future be interested in the trust property by reason of answering a specified description or falling into a specified class; and
- (c) persons unborn.

The Bill would empower the Court to assent, on behalf of any such persons, to any arrangement varying or revoking all or any of the trusts, or enlarging the powers of the trustees of managing and administering the trust property. But the Court must be of the opinion that the variation would be 'for the benefit' of those persons.

It is a truism of trust law that when all the beneficiaries are in existence, are ascertained, are of full age and are not incapacitated, then they can join together to bring the trusts to an end and share the trust property among themselves in such manner as they agree. Alternatively, some of the beneficiaries can buy out the others, subject of course to mutual agreement about the price. Thus if the existing trusts are such that the whole of the property will pass on the death of a beneficiary who has a large private fortune, and will thereby be much depleted by estate duty, the beneficiaries can avoid this to their mutual benefit. Where one or more of the beneficiaries is unborn, unascertained, or incapacitated, the scope for this avoiding action is limited, even where application is made to the Court, for the Court's power to sanction arrangements is much circumscribed by the decision in *Chapman v. Chapman*. If the new Bill becomes law, the Court will be able to give that sanction.

In the case of one specific kind of beneficiary the Court is to have power to sanction the

arrangement even where it is not for the benefit of that beneficiary. Property is frequently held on 'protective trusts' for a person. That means, broadly speaking, that the income is paid to him as long as he does not assign or charge it or become bankrupt, the object being to protect himself and his family from his own improvidence or misfortune. Once one of these events happens, the income is to be applied, at the discretion of the trustees, for the benefit of one or more of a number of specified beneficiaries.

As long as no event has occurred to bring these discretionary trusts into force, the Court will be able, under the Bill, to assent to a variation in the trusts on behalf of this special class of potential beneficiaries even when the variation is not for their benefit.

During the second reading debate, the proponents of the Bill pointed out that its object was to secure parity of treatment of infants and unascertained persons with adults, and not to give them advantages which adults do not enjoy. This argument was accepted by the Solicitor-General who welcomed the Bill on behalf of the Government. While agreeing that it involved some risk to the Revenue, he did not agree to the description of the Bill by an Opposition member as a 'tax avoidance Bill'.

One point not covered by the Bill, because it is a matter for rules of Court, is whether applications under it should be made in open Court, with its attendant publicity, or should be heard in chambers. Hitherto, such arrangements as have qualified for sanction under the existing law have been heard in chambers, except where there has been an appeal to a higher Court. There is a considerable body of opinion in favour of requiring that all applications in future should be made in open Court, although of course where adults only are involved trust variations could always be made without any application to the Court at all. The Solicitor-General said he could not give a particular pledge on this point but he was confident that the Lord Chancellor (who sanctions alterations in the rules of Court) would be fully attentive to what had been said. A judge already had a discretion about the matter and it was clear that he ought to have that discretion in the future.

DEPRECIATION—AND THE INTEGRATION OF VIEWS ON ACCOUNTING FOR INFLATION

by C. A. WHITTINGTON-SMITH, LL.M., F.C.A., F.S.A.A.

IT is but a truism that the field of depreciation, close-cropped from time to time by renewed controversy, derives fresh growth from continued inflation. It is accordingly devoutly to be hoped that one result of the integration of the Institute and the Society will be at least to synthesize the somewhat diverse recommendations made in the past by their respective councils on the subject of accounting for depreciation in times of rising price levels: the Institute, of course, having stood firmly on the rock of historic cost which the Society left, not uncourageously, for the shifting sands of replacement accounting.

Rocks and shifting sands alike mark stages in a slow process of evolution and, as Mr J. F. Allan, F.C.A., showed in his recent article on 'Accounting for inflation' (October 5th issue), it is becoming increasingly clear as inflation proceeds apace that accountants must continue to search for answers to problems which are themselves changing in a changing world; and, not least, the depreciation controversy.

Three Aspects

It has at least three distinct aspects:

- (1) the need to amortize the cost of fixed assets over their effective working life.
- (2) the need to measure year by year that proportion of the outlay on fixed assets which has expired in the earning of profits.
- (3) the need for consistent financial policy with regard to the replacement of fixed assets.

Bedeavouring them all is not only inflation but the often incalculable risk of obsolescence; nevertheless, (1) can no doubt be dealt with satisfactorily on the basis of historic cost; (2) requires the translation of historic cost into terms of current cost which, in the absence of a satisfactory measuring rod, introduces an uncertain and unstable element into the measurement of profit—a word so fraught with misunderstanding that it might be a good thing if accountants were to expunge it from their vocabulary; while (3) involves a consideration of future costs, which quite often may almost be anyone's guess.

But since accountancy is not only an art but

also a science it must surely be subject to a methodology that includes experimentation under changing conditions and will no doubt lead in time to the discovery and formulation of new rules, often amplifying or perhaps modifying (rather than annulling) what has hitherto been accepted as basic principle. That circumstances alter cases is not just a truism, and even if we hold that the best method of providing for depreciation is to stick to historic cost and then appropriate sufficient profits to cover at least the immediate effects of inflation and build up specific reserves to make good the attrition of capital values resulting from inflation (bearing in mind that particular assets may not be replaced at all at the close of their working life), we may well find ourselves drifting further from reality because although the question of providing funds for replacement is primarily a matter of financial policy, it can be acutely aggravated as inflation continues by a widening of the resultant gap between conventional profit and real profit.

Some Measure of Estimation

But if real profit is true profit, how much longer, it may be asked, shall we shun truth; preferring the beaten tracks of convention which we persuade ourselves are at least factual? It may be easier to walk in company in familiar territory but is not truth, after all, the accountant's goal and if it comes to a point how many of the items in almost any profit and loss account and balance sheet drawn up on conventional lines are, despite appearances, inviolable and how many are subject in the last resort to at least some measure of subjective appraisal or estimation? And if depreciation is measured as far as possible year by year on the basis of the then estimated current costs of replacement, is not the leeway that will have to be made up sooner or later if inflation continues also a financial rather than an essentially accounting question?

One significant and indeed valid argument of the Council of the Institute prefacing Recommendation XV on Accounting Principles is that if provisions for depreciation are based on estimated costs of replacement there may be the greatest difficulty when replacement takes place in deciding whether it is better (a) to bring

into the balance sheet the cost of the new asset; or (b) to charge the cost of the new asset against the accumulated provisions for depreciation. It is pointed out that in the former case if prices have been rising the accumulated provisions in respect of the old asset will exceed the cost of it which has to be charged against them and that the resulting surplus, which has arisen from charges against profits will now, chameleon-like, be a free reserve. On the other hand, if the cost of the new asset is charged against the accumulated provisions, there will continue to be shown in the balance sheet the original cost of an asset which has been replaced; perhaps more than once.

New Accounting Principle

In the former case, however, it might perhaps be asked what objection there could be to the enunciation of a new rule or accounting principle – which might eventually be translated into a statutory requirement – that under such circumstances the balance thus freed shall be transferred to a species of capital reserve fund, thereby being frozen so far as any possibility of being available for dividend is concerned and, in fact, being treated as more or less on all fours with the capital redemption reserve fund that comes into existence when preference shares are redeemed otherwise than out of the proceeds of a new issue.

It is true that in the latter case the retained profits out of which redemption takes place have been a reserve or quasi-reserve all along; nevertheless, such reserve changed not only its name but also its nature when redemption took place; though it would have continued to be a free reserve and therefore, no doubt, legally available for dividend save for the statutory prohibition. But need there be, and in fact is there, any fundamental difference of an accounting nature between this reserve, once it has come into being, and the reserve arising from the setting off of the original cost of an asset that has been replaced against the greater sum accumulated during a period of inflation by way of provisions that represented year by year a closer approach to reality in the measurement of profit?

A similar instance of such an accounting 'principle' was to be seen before 1948 in other forms of reserve, in many cases no doubt free, from a strictly legal point of view, for distribution as dividend but nevertheless treated by accountants as capital reserves and now given statutory recognition as such in the share premium account. Both examples, it is suggested, serve to emphasize not only that it is the best practice

of the day which should prepare the way for future legislation, but also that unless the most enlightened professional opinion and the best practice are ahead of statutory requirements our profession will be no longer progressive.

But advertent to the preamble to Recommendation XV, if costs of replacement were charged against replacement provisions, there could, perhaps, be no really fundamental objection as a matter of pure accounting theory, despite inexpediency on more practical grounds, to retaining in the balance sheet, pending any general revaluation of assets, the original capital investment in any particular type of fixed asset, even though there has been some measure of subsequent replacement. It is, of course, not merely conventional orthodoxy to point out that a balance sheet is not, and indeed cannot, be a current inventory but is a technical accounting document of which one purpose is to show the book amount of the investment of shareholders' funds. To show the original investment of subscribed capital despite subsequent replacement is, of course, redolent of the double account system which, despite obvious defects, nevertheless had much to commend itself and in some ways seems to have had rather a raw deal. Renewal funds are, and would continue to be, still shown and to give the original capital investment would perhaps in many cases be no more of a divorce from reality than is the book amount of subscribed capital.

Revaluation of Fixed Assets

Nevertheless, two blacks do not make a white and problems of fundamental theory cannot be solved empirically. And since inflation demands not only new methods of measuring profit but a periodic assessment of the attrition of capital values, it may well be that the only immediate answer is to be found in an occasional if not periodic revaluation of fixed assets – which may be easier said than done – with a credit to a capital reserve, irrespective of whether the original investment or the subsequent cost of replacement has hitherto been shown in the balance sheet.

It is, however, the distortions caused by a changing yardstick rather than inherent defects in accounting method that are causing difficulties in the nature of growing pains, and if perfection in accounting, as in other things, is unattainable in an imperfect world we should neither allow the many-sidedness of truth to deter us from service in its cause nor forget the warning of Erasmus 'By identifying the new learning with heresy you make orthodoxy synonymous with ignorance'.

EARLY BOOKS ON ACCOUNTING

Carpenter's *Most Excellent Instruction* (1632) and Other Works

by B. S. YAMEY

In our issue of November 2nd, it was announced that the Library of The Institute of Chartered Accountants in England and Wales had added to its notable collection of early accounting books by the purchase of copies of three rare seventeenth-century works. We are indebted to Mr Yamey for this interesting discussion of two of these books and other early works.

BORROWING without proper acknowledgment is a familiar feature of textbooks in many fields of study, though happily it is far less common now than it was in earlier centuries. The literature of accounting has perhaps had more than its due share of this practice, but it is unlikely that the extent of such time-saving borrowing has ever been greater than in John Carpenter's *A Most Excellent Instruction for the Exact and perfect keeping Merchants Bookes of Accounts*, published in London in 1632. As already announced in this journal, a copy of this rare work has been acquired recently by the Library of the Institute, and at the same time the Library bought an early (1635) edition of Richard Dafforne's *Merchants Mirrour*, which in several places refers unflatteringly to Carpenter's book. The two volumes now fill two of the relatively few gaps in the Institute's remarkable collection of early English and foreign works on accounting.

Plagiarism Acknowledged

Unlike some other plagiarists, Carpenter did acknowledge his debt to others. In his prefatory remarks Carpenter explained that part of his book was based on the work

'of some well-experienced practitioners in the Art of keeping Merchants bookes of Accounts',

and further, that

'I send it not out as absolutely mine owne worke, nor doe I goe about hereby to detract from the due merit of him, whosoever he be that hath so well deserved in framing the chiefe groundworke thereof'.

But he professed to be ignorant of the identity of his principal source, and gave the impression that his own contribution was substantial.

In fact, however, there is very little in Carpenter's book that was not taken directly from earlier works,¹ and it is difficult to believe

that Carpenter did not himself handle at least some of the books from which he copied large sections. His main borrowing, however, was probably made through the medium of an unpublished translation of a French text, itself translated from a Dutch book. This latter borrowing was angrily unmasked by Ralph Handson in his preface to Dafforne's book; Handson, an accountant, explained there, that a large part of Carpenter's book was taken from notes, which he, Handson, had

'collected [and presumably translated into English] out of Henry Wanninghen in French, for mine owne use'.

Dafforne, who had lived in Holland and was familiar with Dutch publications on accounting, also referred to Wanninghen as the source of much of Carpenter's book.

The bulk of the didactic part of Wanninghen's *Le tresor de tenir livre de comptes a l'Italienne*, 1615 (a translation of the Dutch original²) consists of a large number of questions and answers setting out the required debits and credits for different types of transaction; these questions and answers are conveniently grouped into a smaller number of sections, each relating to a broad class of transaction (e.g. there are ten sets of questions and answers under the seventeenth heading of 'assuring goods'). The groups of questions and answers appear almost unchanged in Carpenter's book: only the order is changed, and each set of questions and answers is replaced by a single proposition. There can be little doubt that this is all from Handson's 'notes'.

The directions, derived from Wanninghen, for ascertaining the accounts to be debited and credited in each of a number of transactions, take up over two-thirds of Carpenter's text (excluding the illustrative set of accounts). Nevertheless,

¹ The late Dr P. Kats drew attention to this fact in his valuable article, 'De Invloed der Nederlanders der 16de en 17de eeuw op de Engelsche literatuur van het boekhouden', *Maandblad voor het Boekhouden*, 1926.

² A copy of the third edition of this work, *Tresoor van't Italiaens boeckhouden*, 1613, is in the British Library of Political and Economic Science, London School of Economics. There is another copy in the library of Salisbury Cathedral.

Carpenter saw fit to include two other lists of similar, though less comprehensive, directions. One list, called 'The Contents', occupies the last few pages of the volume, and is not taken from any published work. But, as I have suggested elsewhere, it is very probable that Handson rather than Carpenter compiled 'The Contents'. The third list of directions is a straightforward copy of a portion of James Peele's *The Maner and fourme how to kepe a perfecte reconyng*, of 1553. In *Carpenter* this list is preceded by a short passage ending with the couplet:

*'Receive before you write, and write before you pay,
So shall you be sure your Account shall never decay.'*

Not surprisingly a similar couplet, though one which is rhythmically superior, appears in a short verse in a different part of Peele's book:

*'And to receive before you write, and write before you paye,
So shall no parte of your accompt, in any wyse decaye.'*

Further Borrowing

Carpenter took other things from Peele. The whole of his illustrative set of accounts is essentially the same as Peele's. Usually Carpenter did not even trouble to change the names of the accounts, and where he did this, he showed little imagination. Thus, 'the Lambe in buckelars bury' in *Peele* becomes 'the Bull in Cornhill' in *Carpenter*. The amounts, however, are unchanged. Other borrowings include entire paragraphs, with minimal changes, of Peele's text, for example, a paragraph on how 'to refourme an erreure chaunced in your Quaterne boke'.

Carpenter also borrowed from John Mellis's *A Brief instruction . . .*, of 1588, itself based, with acknowledgment, on the first English treatise on accounting, that by Hugh Oldcastle, of which no copy seems to have survived. The borrowings here are less substantial. Two examples must suffice. There is a fairly straightforward copy of a passage in Mellis's chapter on accounting for a retail shop. The second example is the inscription on the 'Inventory' in the model set of accounts. Here Carpenter follows Mellis rather than Peele. The version in *Mellis* is:

'Inventorie generall . . . Contayning my whole estate generall in lands, rents, goods, readie money, debtes, and Creditors which I have in this world at this present day. As by the saide Inventory particularly appeareth.'

Carpenter's version is almost identical, though he – or the printer – inserted the word 'present' before 'world'.

How to Conceal Capital

A final borrowing may be indicated. A Dutch writer, Buingha (who also reworked Waningen's treatise), published his *Oprecht Fondament* in 1627. In a brief discussion he indicated how a business man might conceal the size of his capital from his employees. Carpenter took this over:

'But if you would not have your Capitall or Stocke to be knowne by the Bookes, you shall make the goods, and those who are indebted unto you, Debtors unto Cash; and those to whom you are indebted, Creditors to Cash, without mentioning the ready money, untill you disburse it.'

In other words, at the opening of the ledger, the entries which ought to be made in the capital account, thus revealing the opening capital balance, are made to the cash account and effectively conceal the position.

Dafforne noticed the source of this instruction. The two characters (Philo-Mathy and Schoole-Partner), whose conversation constitutes the didactic portion of *The Merchants Mirrour*, make merry over this advice, which, if followed, could hardly fail to confuse not only the employees, as intended, but also the employer. Dafforne deplored that 'these and many other Forraine-bred defects must now bee clothed in English Attire', and recommended a return to James Peele:

'Look into James Peele, whose well-entrances, through neglecting Age (or disdaine of Domesticke Writers, and extolling of Forraine) are as strange to us, as though (as the saying is) they were written in Heathen Greeke.'

For Peele had recommended a plan for helping those 'as will have their substaunce kepte in secrete'. His advice was that the Inventory (opening statement of assets and liabilities) and corresponding pages of the journal should be bound 'in the formost ende of their quaterne [ledger] before the kalendar [index to ledger]'. Then 'suche servauntes as can bothe legeably write, and also enter parcels [distinguish debits and credits] perfectly' could safely be given access to the journal, while the master or his 'keeper of the accomptes' could control the ledger, and write it up at leisure.

There is no doubt of the superiority of Peele's advice, though it is not applicable when it is necessary for the 'servants' to have access to the ledger. It is more interesting, however, that Dafforne, who was obviously familiar with Peele's book, did not notice or comment on Carpenter's heavy reliance on the earlier book.

BUSINESS TENANCIES — III

Occupation by Landlord and Reconstruction

by SPENCER G. MAURICE

SECTION 41 (2) of the Landlord and Tenant Act, 1954, provides:

'Where the landlord's interest is held on trust the references in paragraph (g) of subsection (1) of Section 30 . . . to the landlord shall be construed as including references to the beneficiaries under the trust or any of them; . . .'

What beneficiaries could claim to be a landlord so as to be able to rely on paragraph (g) of Section 30 (1) was considered by the Court of Appeal in *Frish Ltd v. Barclays Bank Ltd, and Another* ([1955] 2 Q.B. 541; [1955] 3 All E.R. 185), in which the plaintiff tenant appealed successfully against an Order of the judge of Bow County Court. The premises in question were held by the defendant landlord upon the trusts of a settlement which declared a discretionary trust of the income during the life of P. for the benefit of himself and his children, and trusts of capital in favour of his issue. The landlord opposed an application by the tenant for the grant of a new tenancy on the ground set out in paragraph (g) of Section 30 (1), as applied to trusts by Section 41 (2), namely, that on the termination of the current tenancy P., a beneficiary under the trust, intended 'to occupy the holding for the purposes, or partly for the purposes, of a business to be carried on by him therein'.

Groups of Companies

The landlord's opposition was, in other words, based on an argument that, although the proposed occupation would be by virtue of a commercial bargain incorporated in a lease, the fact that the proposed occupier was at the relevant date a beneficiary sufficed. The Court of Appeal refused to accept this contention, holding that the words 'references to the beneficiaries under the trust, or any of them', must be limited so far as to refer only to those beneficiaries whose interest under the trust was such as to give them the right as against the trustees to occupy the property, or was such that the trustees might properly within the terms of their trust let them as beneficiaries into possession: in other words 'beneficiaries . . . or any of them', must be limited to persons occupying by virtue of their interest as beneficiaries.

Sir Raymond Evershed, M.R., who delivered the leading judgment, was assisted in coming to

this conclusion by consideration of Sections 41 (1) and 42 (2) and (3). While subsection (2) of Section 41 deals with the case of the landlord, subsection (1) deals with the corresponding case of the tenant and provides in effect that a tenancy shall not be taken out of the Act and lose the benefit of renewal which is given by the Act by reason of the circumstance that the actual occupant, who is carrying on the business, is a beneficiary under a trust and is doing so because he is such a beneficiary. In the light of that it is natural to restrict the operation of subsection (2) to the case where the beneficiary is the occupant because he is a beneficiary. A parallel to the protection given by Section 41 is found in Section 42, which is concerned with the case where the tenant or the landlord is one of a group of associated companies. The intention of subsection (2) of Section 42, as the learned Master of the Rolls pointed out, is that protection for the tenancy is not to be lost by the circumstance that the tenant is one company but the actual occupant is another company associated with the first one, and, conversely, by virtue of subsection (3) a landlord can oppose a tenant's claim for renewal if the landlord is a company and the premises are required for use by an associated company. As his lordship said ([1955] 2 Q.B. 552; [1955] 3 All E.R. 190):

'If the conception is to be uniform — as I feel myself clearly it is — then just as the essential thing by virtue of which the occupation is to be had under Section 42 is the qualification as an associated company, so, I think, if the intended occupation is to be that of a beneficiary, it must be shown that it is the intention that he should so occupy by virtue of his quality or right as a beneficiary.'

Interrelation of Paragraphs (f) and (g) of Section 30 (1)

It may, of course, often be the case that a landlord who wishes to obtain possession of his premises for his own occupation wishes also to reconstruct them for the purpose for which he requires them. *Atkinson v. Bettison* ([1955] 1 W.L.R. 1127; [1955] 3 All E.R. 340) shows that where the purpose of reconstruction is to make the premises suitable for occupation by a landlord who is debarred from relying on paragraph (g) by reason of the fact that his interest in

the premises was created less than five years before the contractual lease came to an end, the landlord may find it impossible to oppose under paragraph (f) an application for a new tenancy. In that case the Court of Appeal applied their own decision in *J. W. Smart (Modern Shoe Repairs) Ltd v. Hinckley and Leicestershire Building Society* ([1952] W.N. 484; [1952] 2 All E.R. 846), a decision on very similar provisions in the Leasehold Property (Temporary Provisions) Act, 1951. Since the landlord in *Atkinson v. Bettison* had acquired his interest only some two and a half years before, he was precluded from relying on paragraph (g) of Section 30 (1), and relied on paragraph (f), but the judge of the Mansfield County Court found as a fact that the landlord's real aim was to get possession in order to carry on a business of his own. He also found as a fact that the proposed work was not the reconstruction of a substantial part of the premises, and the Court of Appeal held that where, as here, there was evidence on which the judge of first instance could reasonably come to such a conclusion, the appellate court should not interfere with his view.

Atkinson v. Bettison was explained and distinguished in *Fisher v. Taylors Furnishing Stores Ltd* ([1956] 2 Q.B. 78; [1956] 2 All E.R. 78). In that case the premises in question, a shop, together with another shop which adjoined them, had been acquired by the landlord in 1954. The landlord gave notice terminating the tenancy, and the tenant applied for a new lease, which was opposed on the ground that the landlord intended to demolish and reconstruct the premises. The landlord had also served notice of termination on the tenant of the adjoining shop, and there was evidence that the two shops were some 250 years old, were very near the end of their useful life, were of no historic interest, and ought in any case to be demolished in about five years' time. The landlord wished to pull them down and put up a new shop which the landlord would then occupy.

Proposed Work must be 'Substantial'

The judge of the Brentwood County Court held himself bound by *Atkinson v. Bettison* and granted the tenant a new lease, whereupon the landlord appealed. In the Court of Appeal, Denning, L.J., who had been a member of the Court in *Atkinson v. Bettison*, pointed out that the ground of the decision in that case was that the proposed work was not 'substantial' within Section 30 (1) (f); but that the Court had considered also Section 30 (1) (g) and (2), and in that

connection had given an emphatic warning against allowing a landlord too easily to escape from the five-year rule. His lordship said that where a landlord put forward a case for reconstruction under paragraph (f) in a case where he could not get possession under paragraph (g), the Court must be careful to see that paragraph (f) was fully satisfied before it allowed him to get possession and must for that purpose

'... be satisfied that the intention to reconstruct is genuine and not colourable; that it is a firm and settled intention, not likely to be changed; that the reconstruction is of a substantial part of the premises, indeed so substantial that it cannot be thought to be a device to get possession; that the work is so extensive that it is necessary to get possession of the holding in order to do it; and that it is intended to do the work at once and not after a time. Unless the Court were to insist strictly on these requirements, tenants might be deprived of the protection which Parliament intended them to have. It must be remembered that if the landlord, having got possession, honestly changes his mind and does not do any work of reconstruction, the tenant has no remedy. Hence the necessity for a firm and settled intention. It must also be remembered that the Act is intended for the protection of shopkeepers, and that this protection would be nullified if a big concern could buy the property and get possession by putting in, say, a new shop-front. Hence the necessity for the work being substantial'. ([1956] 2 Q.B. 84; [1956] 2 All E.R. 80.)

Morris and Parker, L.J.J., delivered concurring judgments.

Reconstruction Need not be Primary Aim

In *Atkinson v. Bettison* there was a suggestion that a landlord could not rely on paragraph (f) unless his primary purpose was to reconstruct. In *Fisher v. Taylors Furnishing Stores Ltd*, the Court of Appeal made it clear that such a suggestion is wrong, and that if the landlord has two purposes, both genuine and important, to get possession for his own business and to reconstruct, he does not lose the benefit of paragraph (g) just because he bought the premises less than five years before. The Court referred to Section 31 (1), which provides that if the landlord establishes any of the grounds set out in Section 30 (1) a new lease must be refused, and Denning, L.J., instanced the case of a man buying up derelict premises where the only sensible thing to do was to pull them down at once and rebuild: in such case the landlord could, if he intended to let them to a new tenant, clearly rely on paragraph (f), and he should not be debarred from doing so, simply because, instead of letting them, he intended to occupy them himself. The Court

decided that in the case before it the landlord had satisfied the requirements of paragraph (f) by showing a genuine intention to demolish the premises, so that a new lease ought not to be granted and the appeal from the County Court judge should be allowed.

A landlord's intention to demolish and reconstruct within the meaning of paragraph (f) is sufficiently shown where the work of demolition and reconstruction is to be done by a building lessee. This was decided by the Court of Appeal in *Gilmour Caterers Ltd v. Governors of St Bartholomew's Hospital* ([1956] 1 Q.B. 387; [1956] 1 All E.R. 314). The defendant landlords proposed to enter into an agreement under which a building lessee would undertake to demolish and reconstruct war-damaged premises and on completion of the work receive a lease for forty-eight years as from the beginning. The landlords were to have full control over the work to be done and to be able immediately to re-enter if anything untoward happened. The tenant, whose application for a new lease the landlords opposed under paragraph (f), contended that this arrangement did not constitute an intention to demolish or reconstruct within the meaning of the Act, which, the tenant contended, contemplated only demolition or reconstruction by the landlords themselves or their servants or agents, such as building contractors. The Court held that this was too narrow a construction of the statute and that it was enough if a landlord showed that he intended to cause the demolition or reconstruction of the premises, and accordingly the landlord's opposition to a new tenancy prevailed.

Meaning of 'Reconstruct'

In *Percy E. Cadle & Co Ltd v. Jacmarch Properties Ltd* ([1957] 1 Q.B. 323; [1957] 1 All E.R. 148), Denning, L.J. (with whom Hodson, L.J., agreed) held that the word 'reconstruct' in paragraph (f) was equivalent to 'rebuild': Ormerod, L.J. ([1957] 1 All E.R. 150), defined 'reconstruct' as meaning 'a substantial interference with the structure of the premises and then a rebuilding, in probably a different form, of such part of the premises as has been demolished by reason of the interference with the structure'. It followed that for opposition to the grant of a tenancy under that paragraph to succeed there must be in effect a rebuilding of the premises or of a substantial part thereof, a mere change of identity not being enough. The premises under consideration in that case were the ground floor and basement of a shop, the basement being accessible to the tenant only by some steps out-

side the front door. The first floor of the building was let to another tenant and was reached by a staircase belonging to the owner of the adjoining premises. The landlord wished to modernize the building by making the three floors into one self-contained unit with internal staircases and to let the whole as a multiple store. The judge of the Pontypridd County Court held that the landlord's intended alteration of the premises did not amount to the reconstruction of a substantial part within paragraph (f), and the Court of Appeal held that he had arrived at a conclusion which he was entitled on the evidence to reach, and that the landlord's appeal should accordingly be dismissed.

Position as a Whole to be Regarded

Ormerod, L.J.'s, definition was adopted by the Court of Appeal in *Joel v. Swaddle and Another* ([1957] 3 All E.R. 325). The tenant occupied as a confectioner's shop an open shop front and two storage rooms behind which were separated from one another and from the rest of the premises by brick walls. The landlord opposed the tenant's application for a new tenancy of the premises on the ground that he wished to reconstruct them so that they would form part of a large hall which he proposed to use as an amusement arcade. He had obtained planning permission. His proposal involved removing the partition walls and substituting for them steel rolled joists across the roof of the ground floor, these joists resting on pillars and supporting the first floor, and making a new ground floor at a lower level. The judge of the North Shields County Court held that there was neither a demolition nor a reconstruction of the premises comprised in the holding nor a substantial work of reconstruction on the holding within the meaning of paragraph (f) and granted the tenant a new tenancy. The Court of Appeal allowed an appeal by the landlord finding that the County Court judge, by the interpretation which he gave to paragraph (f) and the view which he took of *Percy E. Cadle & Co Ltd v. Jacmarch Properties Ltd*, had given too narrow a meaning to that paragraph. The learned judge had considered various parts of the work which was to be done in isolation and decided that no part in itself amounted to a substantial reconstruction. The Court of Appeal held that the position as a whole must be regarded and that the results on the premises of carrying out the proposed work must be compared with the condition and state of the premises before the work was done; viewing the matter in that way there was a substantial reconstruction in the instant case. (To be concluded.)

INSURANCE AND THE INTERNAL AUDITOR

by A. L. WATSON

THE major purpose of this study is to demonstrate that the internal auditor can usefully audit the insurance function of an organization. As a background to the scope of this audit, the vast subject of insurance and the protective measures which can be taken to reduce losses and accidents is dealt with in a general survey.

Importance of Business Forecasting

Business forecasting has today become an extremely important function and the need is for more and better forecasts, which means constant reviews in the light of additional information. It has been stated that one of the difficulties is caused by the absence of reliable data.

The application of these thoughts to the subject of insurance does not mean that a business organization forecasts a series of catastrophic losses, but it should achieve the satisfaction of knowing that the eventualities which might arise are sufficiently covered by insurance to avoid completely upsetting those forecasts. There should be no question of the absence of data if satisfactory procedures have been introduced by management to provide for a general coverage of all hazards which would, if not covered, be detrimental to the life of the business. A constant review of all insurance matters would, of course, be an important requirement of the procedure.

The administration of insurance is frequently looked upon as an additional duty to be handled by some official along with many other duties. It might be regarded, particularly in large businesses, as a full-time and a specialist job, and indeed it is. Much of the work in some organizations is placed with brokers, and expert advice and service should be obtained, but consideration might also be given to the useful work that can be done by an insurance expert within the business.

The subject of insurance is vast and very technical, involving law, actuarial science, engineering, investments, etc. It would be impossible to deal in so short a time with any one part of the subject. My chief aim is to deal quite briefly with some aspects of

insurance and then to demonstrate how the internal auditor could usefully be of service to management in this sphere.

I might say that it is not my object to sell insurance – indeed there can be, and is, both over-insurance and under-insurance. For this reason some knowledge of the subject is important as it can be an expensive commodity and needs constant review.

Like most things in this changing world, insurance has become more complex and the need has developed for new types and classes of insurance cover. Insurers are no longer the sellers of ready-made goods so far as their commercial and industrial customers are concerned, but turn out a tailor-made article.

The insurance policy is a legal contract and contains all the essential elements of a contract. There is consideration, at least two parties, and obligation of performance. It is of the utmost importance that close attention be given to this aspect of insurance – an intelligent examination of the policy or contract is vital.

An insurance contract can only be regarded as satisfactory

if it corresponds at all points with the needs of the business which is being insured. It is very necessary that the policy contains a clear and complete definition of the risks, coverages and the method of settlement. The so-called 'comprehensive' contract is not always what we generally understand by the term. Too often exclusions can occur which defeat the protection desired.

Main Classes of Risk

Fire, life, accident and marine are the four main classes of risk, but within this classification are many divisions, sub-divisions and speciality forms of sub-division. It is my intention to mention only some features of these better known types of cover.

I may say here that on the question of values, the thought which is given to matters of business for other purposes must be put aside entirely when considering the same matter in relation to insurance requirements. It is better to exaggerate the risks, but of course, not with any fraudulent intent, and look to the occasion when the maximum risk might occur.

Blanket covers have advantages and disadvantages.



Mr A. L. Watson

For example – a limit of potential liability is, say, £5 million to cover many buildings or different factories. The extent of cover, it should be borne in mind, cannot be arrived at without first computing the constituent parts which contribute to the total. Usually a declaration is required by the insurance company that the global cover can be identified.

If book values only are used for determination of the amount of insurance in force, the chances are, under present conditions, that the amount of coverage is inadequate.

A 'floater' provides complete cover for assets such as inventories which may fluctuate in value from day to day, or property in transit or stored at various points. This would also cover buildings and plant in course of erection.

Fire

There is still some evidence that fire insurances are not always in accordance with present-day values. It should be noted that where average applies, if the amount insured proves inadequate when a fire occurs, the insured has to bear a rateable proportion of the loss. Where reinstatement conditions apply, it is absolutely essential that the amounts of insurance should be fully adequate to cover eventual reinstatement of the property in the event of damage.

Many firms have made additions and improvements to their premises which have had the effect of increasing the value of the buildings. Increases in value from both causes should be reflected in the sums insured and an annual review of the situation should be made.

Good fire protection need not be expensive, nor need it restrict the activities of production. The expenses incurred form an integral part of the cost of efficient factory management. If care and attention are devoted to the maintenance of equipment, good layout of machinery, the stacking of goods, etc., fire risks are considerably reduced. Common hazards include carelessness, smoking, floor sweepings and waste, sparks, heating appliances and electrical installations. All persons employed on the premises should receive regular training in the use of first-aid fire-fighting, and in the method of calling the fire brigade.

Fires involving the heaviest losses often occur in warehouses and other storage buildings. The degree of hazard varies according to the nature of the material stored. Storage buildings should, if possible, be detached from those in which manufacturing processes are carried on. If not detached, they should be divided by fire-separating walls in which communicating openings are protected by fire-resisting doors. These walls should preferably be carried through the roof and extended above it.

Life

Some of the commercial uses relating to life assurance are to insure employees during business visits abroad, to replace money which may have been withdrawn from a business on the death or retirement of a partner, to protect a creditor's interest in the life of

a debtor. There is also the value of a life policy as security for advances – here it is important to see that a notice of assignment has been sent to the insurance company for registration and has been duly acknowledged.

Marine

Marine insurance is one of the oldest forms of cover and very complex on account of its legal interpretations, terminology and traditions.

It is a type of insurance developed to cover almost any hazard where ocean and inland waterways transportation are involved, and the insurance applies to both hull and cargo.

A frequent form of cover for cargo is by a block policy, renewable yearly. As goods are sent to their authorized destinations, a certificate is prepared declaring the value (usually slightly more than the actual amount), and this is deducted from the block policy. The certificate is sent with the other documents – bills of lading etc. – to the client and when he settles his account it becomes his property.

The limit of indemnity under marine insurance must be sufficient to take care of the maximum accumulation of several cargoes.

Employers' liability

The National Insurance (Industrial Injuries) Act, 1946, repealed the various Workmen's Compensation Acts, but employers of labour were still left with the common law liability in respect of injuries to their employees. This liability was rendered more onerous as the result of the operation of the Law Reform (Personal Injuries) Act, 1948. Prior to this Act an employee was deemed to accept the possibility of injury by a negligent fellow employee as one of the risks inherent in employment. This escape for employers ceased when the doctrine of common employment was abolished by the Act of 1948.

It is important to remember that the amount of damages capable of being awarded is not limited by Statute and often runs into many thousands of pounds, in addition to which heavy legal costs may be involved.

Public liability

The varieties of public liability risk are very numerous, but fundamentally the same type of cover is always provided – liability for injury or damage to persons not in the service of the insured, and property not belonging to, or under the control of the insured.

The need for insurance against claims of this nature is obvious and the limits of cover must be high – e.g. £100,000 or more. A large liability claim or verdict could conceivably wipe out all the assets of a business.

Engineering

Engineering insurance is an important branch of business cover, and includes boilers, steam piping, lifts and other plant. Liability could be just as large as under ordinary public liability insurance. The

policies should be examined carefully and a large indemnity is absolutely essential.

The situation and types of equipment and their effect on both direct damage and continuity of operation, in case of breakdown or explosion, must be clearly understood to decide the extent of cover required. The cost of a boiler destroyed by explosion is often a minor portion of loss, so protection in an amount equal to cost of equipment is not enough. Explosions can cause severe damage to materials or persons.

This form of insurance necessitates periodical inspection by the insurance company's surveyors.

Fidelity and Cash-in-transit

Because a business has not suffered a serious case of defalcation or embezzlement, do not think it cannot happen. The level of morality is not so high these days, and frequently one reads reports in the Press of the most trusted employee going wrong.

Fidelity cover is essential to most businesses and the type of policy will often depend on the size of the organization. There are the 'named' and 'position' schedules, and also the modern form of blanket cover. One advantage of the named policy is that the insurance company makes extensive inquiries regarding an employee to be covered, whereas with the other forms of cover this advantage is lost.

An example of the extent of cover necessary would be that any firm which insures its wages official for a sum less than the total weekly bank withdrawal is asking for trouble. I have seen quoted, a formula for determining cover as 5 per cent of current assets. This protection should also extend to inventories and securities etc.

The operation of efficient systems of internal check and internal audit are factors which an insurance company bear in mind when fixing premiums.

Insurance of cash-in-transit and money held is more than ever desirable nowadays when so many hold-ups take place. The cover should provide for loss of money in transit (including by registered post), money for payment of wages, etc., on any premises of the insured until finally paid away. Loss or damage to safes and strong rooms caused by break-in, loss of cash not kept in safes up to certain limits, and damage to employees' clothing can also be included in a money policy.

It should be emphasized that cash-in-transit and money policies exclude defalcations by any person in the employment of the insured.

Speciality Cover

I have selected a few examples of speciality cover which may be of interest.

Subsidence

This risk is difficult to cover by any form of permanent insurance, but a situation can arise in which property is exposed to danger by building operations. Loss or damage which may result from subsidence may be

specifically excluded from the contracts in connection with the work. The amount which may be involved in the event of an accident can be large, and insurance cover should be considered.

Alterations to buildings and to special items of plant such as heavy machinery, can introduce the risk of damage from collapse. The premises and valuable items of plant may be exposed to special risk. Contractors may not accept responsibility for any damage, and here again the question of insurance should be looked at.

Damage by water

Premises and contents can be insured against water damage risks. Cover can be general or specific, such as storms, flood, tempest or the bursting or overflowing of water pipes, tanks and apparatus. Damage due to leakage from sprinkler installations is frequently made the subject of a separate policy.

Goods-in-transit

Goods-in-transit may be damaged by fire, water or other weather causes, or as the result of impact or collision, but in general the most serious risk is theft or larceny. Entire loads are sometimes stolen so that the maximum value of any load should be covered in the goods-in-transit insurance. Shipping delays, strikes, etc., may result in an accumulation of goods, and transit policies should be made to provide for this risk.

It is preferable that in-transit policies be arranged on an all-risks basis, as it is impossible to visualize in advance all causes of loss or damage.

The road services and railways have their own insurance but only accept a certain amount of liability.

Machinery removals

Valuable items of plant and machinery sometimes have to be moved, or even an entire factory or department. The operation may include road transit or merely re-siting in the same premises. During any such removal, plant may be exposed to an unusual degree of risk and loading and unloading operations give rise to claims for damage.

This type of risk could be covered by extension of goods-in-transit insurance, or by special policy, but it should be noted that internal removals or loading and unloading risks are not covered under in-transit insurance.

A substantial consequential loss may result from the inactivity of a machine which has been damaged, and this risk can be the subject of a special insurance.

Erroneous deliveries and products liability

These are risks involved in the supply and dispatch of goods on account of wrong delivery, mis-labelling and mis-description. In certain industries these risks have a special significance - e.g. where goods are delivered in bulk, as for liquids in tanks, or delivery of a commodity in a wrong tank or container.

If two different grades of any commodity are

mixed, the financial loss can be considerable, or if the purchaser in turn serves a number of customers with the wrong mixture, claims may be made by such customers.

Chemicals, foodstuffs, for example, can be involved in processing and compounding industries, whereby through some error the wrong substance has been used and considerable damage may be done, including personal injuries.

The products liability policy should be so drawn up as to give full cover against the risks incurred by a manufacturer in the selling of goods for human consumption, the protection of the goodwill of distributors, and where applicable, erroneous deliveries. The need for cross liability clauses should be carefully considered.

Free gift schemes

Where firms enter into contracts for the supply of goods to be used in free gift schemes, it may be worth while ascertaining that they are covered under their products liability insurance. The question of contractual liability is important, and the agreement to supply goods for gift schemes may be outside the risks or liabilities associated with products' insurance. Insurance against losses of coupons for free gift schemes may be obtained – i.e. infidelity or collusion on the part of employees. The insurers would want to be satisfied about security arrangements and method of cancellation of certificates.

Consequential Loss

Consequential loss or loss of profits insurance has existed for some half-century, but it is only in recent years that it has made more rapid strides. It is now used by a large section of industry and commerce to provide indemnity for loss of net profit following reduction in turnover as a consequence of fire. The policy also covers the payment of standing charges or overheads, and any increase in the cost of working.

This type of insurance is specialized and can be complex, but accountants have become more familiar with the principles. In the event of a claim the auditors of the insured would normally be involved in the preparation of such information as may be required by the insurers.

The basis of consequential loss insurance is linked with the yardstick of turnover (except when output or revenue basis is applicable) on the principle that reduction in turnover after a fire is a reliable guide, and a suitable index for measuring the proportionate effect of a fire upon the earnings of a business. The actual loss can be ascertained by applying to this reduction the ratio which standing charges and net profit normally bear to turnover.

Consequential loss policies, above all others, are insuring for the future – i.e. they are dealing with a period of indemnity which may be only twelve months, but which quite commonly is for two or three years. Indemnity commences on the day of the fire which may occur towards the end of the insurance

year – one year almost after fixing the amount of insurance. Profits and standing charges estimated, therefore, relate to trading years yet to come.

It is usual to over-estimate the risk as the policy can be on an adjustable basis. The insurance can be extended to cover fires at premises of suppliers or sub-contractors, and failure of power supplies. The policy can also be extended at additional premium, or separate insurance, to cover losses resulting from other perils – e.g. explosion, impact, burglary, malicious damage.

Export Credit and Home Trade Indemnity

Physical assets such as plant and stock are insured as a matter of course, but the item 'sundry debtors' may be the only uninsured asset on a company's balance sheet. Export and home trade credit insurance provides a means of bringing book debts into line with other assets.

The Export Credits Guarantee Department (E.C.G.D.) – a separate department of the Government under the Board of Trade – does most of the export credit business. Since the last war E.C.G.D. standard policies have provided in a single document comprehensive cover against the transfers, insolvency, default and other risks of export trading. Briefly, policies issued are for short-term, medium-term and dollar market. Cover for specified loss is now 95 per cent. In return for his premium, the exporter gets more than insurance alone – he gets the benefit of the largest and most comprehensive organization for export credit management.

Investigations, it is understood, have shown that the value of export credit insurance in the financing of export business is one important reason for the increase in the number of insured exporters.

For insurance on the home market, indemnity companies issue policies based mainly on whole turnover and specific account. Policies usually cover between 75 per cent and 85 per cent of the risk – percentage varying according to the quality of the business. Assistance is provided in following up overdue accounts and debt collection up to the point when a claim arises. Thereafter assistance is given in dealing with the work and problems involved in connection with meetings of creditors etc. A list of all customers is usually required and then the company gives a rating, stating a limit to which credit can be allowed for each client.

Insurance and the Internal Auditor

Before coming to the final part of my paper, I have endeavoured to give an outline of some aspects of insurance. As I have already mentioned, it is a vast subject and in many ways highly technical, but in my opinion, the internal auditor can perform useful service to management by including the insurance function in the audit programme.

Insurance matters may be dealt with by a separate insurance department or be part of the secretarial department. Maybe a firm of brokers do the work.

Nevertheless, by virtue of his knowledge of the organization and close contact with most spheres of operation, the internal auditor, without necessarily becoming the fire or other risks protection officer, should be in a position to assist management by satisfying them that insurance protection is adequate.

The value derived by management from the insurance audit will, as in all other types of audits, be in direct proportion to the amount of thought and skill and personal initiative exercised.

An audit of the insurance function does extend to both the accounting and non-accounting fields, and it is perhaps on the non-accounting side that difficulties may arise. I feel, however, it is on the non-accounting and operating side that internal audit can carry out the most effective work.

In tackling the audit of the insurance function, the following major objectives should be borne in mind:

- (1) Reconcile the existing insurance cover with those risks which should be insured.
- (2) Ascertain that the amount of insurance in force and the rates charged have been approved by management.

(3) Determine that the values are adequate and disposals and acquisitions correctly reflected.

(4) Review all insurance methods and procedures.

(5) Recognize that internal audit may have some limitation of qualifications to judge and assess insurance matters, and to call upon technical assistance when needed.

To sum up – the method of determining general policy, the means of enforcement, and continual review, are essentials in controlling the insurance function.

The cost of insurance is a considerable item of expense, returning nothing in the way of profit. Over-insurance or the purchase of uneconomical types is a costly luxury, but under-insurance is a dangerous hazard. For these reasons alone, the internal auditor should audit the insurance function.

One of the vital functions of management, it has been stated, is to spot likely trouble far enough ahead so that action can be taken before it happens. Planning is bringing the future more under control and future earnings can be accurately anticipated only if they are insured against all major hazards.

Weekly Notes

No Tax on Sale of 'Know-How'

By a majority of four to one the House of Lords has allowed the appeal of the taxpayer, and dismissed the Crown's cross-appeal, in *Moriarty v. Evans Medical Supplies Ltd* (*The Times*, December 5th, 1957). It is now finally established that no part of the £100,000 paid to the company by the Government of Burma, in consideration of 'know-how' for establishing a pharmaceutical industry there, is to be included as a trading receipt of the company for the purposes of income tax.

The Special Commissioners had found that the £100,000 was wholly income; Upjohn, J., had held that it was wholly capital, while the Court of Appeal (35 A.T.C. 444) took the view that the £100,000 was capital but only in so far as it was to be attributed to the imparting to the Government of Burma of certain secret processes. The Court of Appeal had accordingly made an order to remit the case to the Special Commissioners to ascertain what part, if any, of the £100,000 should be so attributed. Both sides appealed against this to the House of Lords; the taxpayer's appeal was allowed, the Crown's cross appeal was dismissed.

Viscount Simonds said it was manifest that a secret process, whether in composition or in methods of storing or packing, was something which could be disposed of for value. By imparting the secret to another, its owner did something which could not fairly be described as 'rendering a service'. It remained to consider whether, assuming that the £100,000 was in whole or in part consideration for the sale and purchase of an asset or assets, such assets

were 'items of fixed capital'. The evidence was overwhelming that the company parted with a capital asset, i.e. a source of profit, and received a capital sum for it. The fact that the secret was not revealed to all the world did not make any difference. As to apportionment, he agreed with Lord Denning's view that the £100,000 was an entire sum paid for a specified consideration and it would not be right at that stage to send the case back to the Commissioners to apportion it.

Purchase Tax and Local Authorities

Glasgow Corporation have obtained a judgment in their favour that they need not pay purchase tax on activities which are not business in the ordinary commercial sense. As a result the Corporation have intimated an intention to refuse to pay some £5,000 purchase tax charged on their printing and stationery, and to claim back past payments amounting in the aggregate to some £160,000. The Commissioners of Customs and Excise have replied that they cannot at this stage accept the basis of the Corporation's argument. The matter is, of course, of importance to large numbers of local authorities (*The Times* December 3rd and 5th, 1957).

Buoyant Retail Sales

The Christmas shopping rush has started this week and so far as it goes trade seems to be very similar in volume to last year. It would not be surprising if this year's Christmas figures were in fact slightly better. Retail trade was fairly quiet in October, possibly owing to the mild weather, and such increase as

OBITUARY**MR RONALD STAPLES**

It is with deep sorrow that we record the death of Mr Ronald Staples, Editor-in-Chief of *The Accountant*, which occurred



on December 5th, after just over three weeks' serious illness. A few days earlier his condition seemed to improve slightly and there were hopes of his recovery, but a sudden relapse proved too great a strain in his state of extreme weakness. He was 68 years of age.

The career of 'R.S.' was unusual in many respects. It began in the Inland Revenue Department, where he was in due course appointed an Inspector of Taxes, and where the experience he acquired brought forcibly home to him the need for a journal devoted entirely to taxation matters, and all the problems and ramifications covered by that phrase. Accordingly, when opportunity offered, he resigned from the Civil Service, and in 1927 became Founder-Editor of *Taxation*, making it a success which more than justified his early hopes. Among the numerous activities started by Mr Staples in connection with the paper are the annual National Taxation Conference, inaugurated in 1951, which has become one of the most successful and enjoyable events of the accountancy year, and the *Taxation* Diploma Examination, with a 'Ronald Staples' gold medal for outstanding merit. A few months ago he resigned the editorship, which he had held for thirty years, in favour of Mr Percy Hughes, F.C.I.S., A.S.A.A., formerly Assistant Editor, and he continued as Editor-in-Chief.

He was the author of a number of standard works on taxation, of which *Staples on Back Duty* is probably the best known.

His work with *Taxation* in its early days brought Mr Staples in contact with the late Mr A. L. Gee, with whom he formed a close friendship, and on Mr Gee's death in 1937 it was 'R.S.' who succeeded

him as managing director of Gee & Co (Publishers) Ltd, and at the same time he became Editor-in-Chief of *The Accountant*. His guidance and directing hand have been of untold value during the last twenty years, and his clear head and shrewd judgment have been constantly at the disposal of successive editors. *The Accountant* Annual Awards, inaugurated in 1954, not only fulfil their purpose of stimulating improvement in the form and content of company accounts, but with his active support and encouragement have become a notable feature in the life of the City of London as well as of the accountancy profession; and with 'R.S.' as presiding genius, the annual presentation ceremonies in the Mansion House became most delightful social occasions.

These activities would have been sufficient for most men, but they did not satisfy one with such intense vitality and such a tremendous appetite for work. In 1940 he entered the field of general publishing by founding Staples Press, of which again he was chairman and managing director. The high reputation which it enjoys today was built up on his enterprise and initiative, and his interest extended over the printing side as well as the literary side of the business.

Since 1953, also, he had been Editor-in-Chief of *Truth* and chairman of Truth Publishing Company.

The brief facts which we have set out are by no means the whole story, but they give some slight indication of the immense determination and courage which carried 'R.S.' unfalteringly through problems and difficulties which so many widespread interests inevitably produced at times. To him they were a challenge - obstacles were there to be overcome, and overcome they were. To the end of his days he retained an enthusiasm for work, a keen and active brain, and a quick and active body, all of which many a younger man might have envied.

But there was another side to the life of 'R.S.' He was passionately devoted to the country and country pursuits, and in his happy home in Sussex, surrounded by the garden and the fields he loved so well, he found the peace and relaxation which he needed. To his beloved wife and children we offer our heartfelt sympathy in their irreparable loss.

there was seems to have been due mainly to higher prices.

In the quarter ended September, however, consumers spent more on durable household goods, clothing and drink than they did in the same quarter of 1956. The main increase was the 10 per cent rise in purchases of durable household goods and represents an increase which has been noticeable throughout 1957. There was thus a considerable build-up in expenditure in the autumn which does not seem to

have been affected immediately by the higher Bank rate in September. It is possible that despite the fall in overtime earnings in some industries, households were on the whole going through a period of re-equipping which they will tend to complete unless there is a big drop in family income. It is, of course, possible that the counterpart to this re-equipment, if such should be the case, may be a reluctance to buy on an increasing scale in another year's time. It may be that consumers will be slow to be tempted

by lower prices. It is apparent, too, that hire-purchase contracts have not been severely affected by the Bank rate. It is always possible that a contraction of earnings when it first occurs may increase the attractiveness of hire-purchase facilities and that an unwillingness to take goods on hire-purchase terms does, not develop on a large scale until a serious recession in consumer incomes has set in. When it does, the fall in expenditure may be all the more severe since a part of the income is already mortgaged for hire-purchase repayments.

Independent Airline Troubles

The difficulty of competing with two nationalized airlines continues to be a main preoccupation of the independent air operators. Mr G. H. Freeman, of Transair Ltd, chairman of the British Independent Air Transport Association, says in a foreword to the annual report for 1956-57 that the independent airlines think that they have a much greater contribution to make than they are currently permitted. He points out that the total effort of the independent airlines has not kept pace with the general world-wide expansion in operations. He says that independent companies would welcome the idea of co-operative arrangements or agreements with the two corporations but a lead must be given by the Government.

The independent companies are in a very difficult position. On the one hand their two highly organized competitors, B.O.A.C. and B.E.A., are themselves forced to work on small profit margins because of international air fare agreements. Given the low level of international tariffs, the Government is obviously reluctant to encourage too much capacity in the civil air transport industry, especially when losses by the two corporations must mean in the end a subsidy from the taxpayer. On the other hand, the independents are small as air organizations go and they are in a weak position both financially and on the scale of their operations to run the latest types of gas turbine aircraft.

Nevertheless it remains sound in principle for two nationalized corporations which can take the cream of the traffic on internal lines as well as having monopoly privileges on all lines, to have commercial competition. While it is true that the independent operators have got to run services which are to some extent complementary to the two corporations, they should be allowed to compete to a certain extent on those lines where international competition is not at its fiercest.

U.S. Tariff Proposals

The United States Administration is seeking means of maintaining a flexible tariff policy but there are indications that Congress will be reluctant to give it the necessary authority. This week the Commerce Department has proposed a five-year extension to the United States Reciprocal Trade Agreements Act. In January, President Eisenhower will ask Congress as well for authority to reduce tariffs by 25 per cent

over a five-year period and, partly as a tactical measure to neutralize criticism, the Administration will also ask for authority to raise tariffs more quickly than is possible under the present procedure. One of the principal reasons for flexibility in the next few years will be the need to work out tariff arrangements with the countries comprising the European Common Market.

It is likely that the Administration's efforts will meet with stiff opposition. The New England wool textile industry is calling for protection and its lobby is an influential one. Perhaps more ominous than the call of individual industries for protection is the possibility that some of the Democrats in Congress will side with the Republicans on this issue. It is never easy to persuade Congress to adopt a liberal tariff policy, especially when the traditional protectionist party, which means the Republicans, is in office. The task is all the more difficult when United States business is passing through a period of recession.

A Matter of Time

If a man in local government pensionable employment was given notice on September 1st, 1950, to expire on September 30th, 1950, did he become entitled to his superannuation 'on September 30th, 1950', or 'after September 30th, 1950'? If the latter, he would be entitled to claim benefits payable under regulation 18 (1) of the local Government Superannuation (Benefits) Regulations, 1954. The Minister of Housing held that the former was the right answer, so that the employee did not receive the benefits. However, the Divisional Court reversed this decision, saying it was unarguable (*Randle v. Blackburn Borough Council* (*The Times*, December 4th, 1957)).

Payments to Encourage Horse-racing not Deductible

The Race-course Betting Control Board is a statutory body which operates totalizators and is required by statute to apply surpluses, after paying tax and expenses, in certain specified ways for the encouragement of horse-racing. It claimed that the amounts so expended were deductible in arriving at its taxable profit, and the Special Commissioners allowed the deduction. This decision has now been reversed, in favour of the Revenue, by Upjohn, J., who held that the expenditure was not made wholly and exclusively for the Board's trade (*Race-course Betting Control Board v. Young* (*The Times*, December 7th, 1957)).

Two Stamp Duty Decisions

In our leading article under this heading last week, the sentence on page 653: 'Section 53 (2) does not affect the creation or operation of resulting, implied or constructive trusts' should have read 'Section 53 (2) provides that Section 53 shall not affect the creation or operation of resulting, implied or constructive trusts'.

Finance and Commerce

The British Petroleum company's £41 million new issue has dominated the stock-markets in the past week. A substantial amount of investment and speculative capital is presently tied up in this operation and, as a consequence, turnover in the market generally has been restricted.

Charles Winn Again

This week's reprint gives the second attempt by Mr N. K. Mousley, the chairman of Charles Winn & Co Ltd, of Birmingham, to produce accounts which will be understood by the company's employees and their trade unions. The result is something less extraordinary and certainly more easily read and understood. Last year's accounts, reprinted on December 8th, 1956, departed in a rather startling manner from the normal to such extent as to leave one somewhat bewildered.

This year, alterations have been made in an endeavour to meet some of the criticism, probably the most important change being the restoration of better balance between the accounts and the notes.

But the principles incorporated in the 1955-56 accounts have been fully maintained. Thus the word 'reserves' is eliminated. Shareholders' capital is shown to be made up of the 'so-called issued capital', the net amount arising from the issue of shares at a price in excess of the par (nominal) value, and retained earnings.

All current liabilities have been deducted from current assets to give a final figure of net assets, these terms 'being used to comply with the Companies Act'.

No Net Earnings

One of the most debatable points is the absence of a figure for net profits after tax in the 'Earnings Statement', which 'is kept in the form in which it appears in the company's books instead of being transposed into a tabular form finishing with the amount retained in the business (of the parent company in the case of the consolidated statement)'.

Accordingly, 'there is no figure of profit (or earnings) after taxation', because 'such a figure (which in many cases is an arbitrary one as the so-called "charge" for taxation is merely a "provision") is not relevant, as the company's earning capacity is the figure shown as the earnings'.

'Whatever tax is payable on these earnings,' says Mr Mousley, 'is merely one use of them and, due to the operation of the profits tax (at any rate as at present on the Statute Book), cannot even be estimated, let alone determined, until the directors' recommendation for the proposed dividend, if any, on the ordinary shares, has been decided.' This is a point, he says, which can easily be overlooked and it formed the reason for the dividends appearing before taxation in the 1955-56 accounts.

However, 'in deference to the views expressed by accountants, financial writers and investment analysts, who maintain that as taxation (at any rate on some basis) is compulsory and dividend payments voluntary, taxation should come first, the normal order of precedence has been used in this year's accounts'.

Mr Mousley also likes to see the 'so-called gross amount' of the dividend stated. The tax deduction on payment, he says, is just another case of deduction of tax at source.

Transposable?

Another point for comment is that no reference is made in the body of the accounts to the fact that part of the issued capital is due to the capitalization of 'earnings (profits) retained in the business'. The proper place for that is considered to be in the notes, and Mr Mousley suggests 'conversion shares' as an acceptable substitute for 'capitalization' or 'bonus shares'.

In another respect, however, convention is followed. Consolidated accounts have been used in preference to last year's form which combined the parent company's accounts and a statement of the interests of the parent in its subsidiaries. The alteration has been made 'partly because the consolidated form is more usual - and more popular'.

With these second accounts it seems that much of the constructive criticism to which last year's accounts were subjected, has been acknowledged. A year ago there was a danger that over-enthusiasm, leading to extremism, might defeat its own object. The latest accounts are undoubtedly more readable, although we can hardly go all the way with Mr Mousley in his contention that company shareholders would experience little difficulty in transposing any company's accounts, British or foreign, into the Charles Winn form.

On the question of the terms used in the accounts there need be little argument, but it is difficult to see the necessity for explaining 'Consolidated statement of capital' as 'Money in use, on the basis of assets values used (as shown)'.

Is it possible, too, that there is too much thought for the employee? Admittedly many employees in the company are also shareholders, but would it not be possible to provide an earnings statement showing dividend cover in a 'net profit after tax', even if it means providing a separate earnings statement.

Money Market

The market syndicate maintained its bids for Treasury bills on December 6th. As a consequence rates were little changed; that for the shorter bills averaging £6 9s 10.44d per cent and for the longer £6 9s 1.45d per cent. This week's offer is £50 million of 63-day and £230 million of 91-day bills.

CHARLES WINN & CO., LIMITED
Statement of Capital* and of the Use of It as at 31st July, 1957

		CAPITAL		1956	
		£		£	
I	SHARHOLDERS' CAPITAL				
	Issued and fully paid-up Share Capital				1956
	(Note A on page 7)*			£	£
	Share Premium Account (Note B on page 7)*			319,463	290,000
	Earnings retained in the business:			3,602	4,537
	From previous years				76,546
	From current year		17,250		16,726
	Less Goodwill written off (Note C on page 7)*		10,661		—
				99,861	16,726
	*(The notes are reproduced on page 698—Ed.)				
	Earnings retained for Income Tax due 1st January, 1959			422,976	387,809
				36,000	36,900
				458,976	424,709
II	FIXED ASSETS				
	Land, Buildings, Plant and Equipment (Note below)			£	£
	Less Deferred Liability in respect of purchase of freehold property			189,898	129,108
				34,200	—
				155,698	129,108
III	INVESTMENT IN SUBSIDIARIES—at written-down value (1956, at cost)				
	Shares			1,955	1,955
	Amounts due from (£17,290), less amounts due to (£6,968), Subsidiaries			10,322	29,249
				10,322	31,204
				10,624	10,624
IV	TRADE INVESTMENTS—at cost				
V	NET CURRENT ASSETS				
	Stock and work in progress—at lower of cost or market value			328,944	313,503
	Amounts receivable, less provisions			98,553	109,714
	Investments—at cost (market value £520 (1956, £628))			668	668
	Less amounts payable:			428,165	423,885
	To suppliers and others		£		
	For current taxation		74,622		95,100
	Amount owing to Bankers, less cash in hand, £95 (1956, £159)		51,133		40,109
	For net amount of proposed final dividend on Ordinary Shares		14,652		30,159
			5,476		4,744
				145,883	170,112
	Signed on behalf of the Board, N. K. MOUSLEY } Directors H. H. GWILLIAM }			282,282	253,773
				458,976	424,709
		NOTES		Total	
		Items to 31/7/47 at cost less depreciation		Provision for depreciation since 31/7/47	
		Items since at cost, 1956		£ 1956	
		Fixed Assets		£ 1956	
		Freehold and Leasehold Land and Buildings		118,762	
		Plant, Machinery and Motor Vehicles		70,136	
		Patterns at nominal net figure (as at 31/7/47) (replacements provided for out of revenue)		188,898	
		GENERAL		1,000	
		Capital Commitments not provided for in the Accounts are estimated at £45,000 (1956, £72,341), of which £35,000 (1956, £25,000) is expected to mature during the year to 31st July, 1958.		189,898	
		The Company has received non-distribution relief for Profits Tax, which, in the event of subsequent distribution exceeding Earnings after 31st July, 1957, may be withdrawn in whole or in part.			

CHARLES WINN & CO., LIMITED, AND ITS SUBSIDIARY COMPANIES
Consolidated Statement of Earnings and of the Use of them
Year ended 31st July, 1957

		EARNINGS		1956	
		£		£	
I	PROFIT FROM TRADING			82,028	73,934
II	INCOME FROM TRADE INVESTMENTS			1,695	16
III	INCOME FROM OTHER INVESTMENTS			37	10
IV	Less INTEREST ON UNSECURED LOAN (Subsidiary)			83,760	73,960
				213	212
				83,547	73,748
		USE		£	
V	FOR TAXATION ON EARNINGS FOR THE YEAR				
	Profits tax:				
	At full rate, on earnings distributed (dividends)		7,856		6,497
	At reduced rate, on earnings not distributed		1,748		1,553
					8,050
	Income tax, at standard rate, on all earnings (relevant amount deductible from dividends)		9,604		35,052
			35,500		43,102
VI	FOR DIVIDENDS (Parent Company), less deductible tax: Dividends, before deduction of tax		26,714		24,000
	Less Income tax (at standard rate) deductible on payment		11,353		10,200
	Net amount		15,361		13,800
VII	FOR RETENTION IN THE BUSINESS				
	By Parent Company		17,250		16,726
	By Subsidiary Companies		5,832		120
					16,846
			23,082		73,748
			83,547		
		NOTES		1956	
		PROFIT FROM TRADING has been arrived at after charging:		£	
		Emoluments of Directors of Parent Company:		18,299	
		Fees, £1,351 (1956, £1,150); Management remuneration, £16,948		691	
		Audit Fees		15,760	
		Provision for depreciation			
		DIVIDENDS		Net	
		On Preference Shares (at fixed rate of 6% of par value)		Gross Amount	
		On Ordinary Shares:		£ 1956	
		Interim dividend (at rate of 5% of par value)		7,666	
		Proposed final dividend (at rate of 5% of par value)		9,524	
				8,250	
				11,353	
				26,714	
				13,800	

NOTES

A Share Capital

	Authorized 1956	Issued and fully paid-up 1956
Ordinary Shares of a par value of 5/- each	195,000	190,481
6% Cumulative Preference Shares of a par value of £1 each	130,000	128,982
Unclassified	25,000	—
	350,000	319,463
	1956	1956
	£	£
	4,537	5,225
	—	1,250
	4,537	6,475
	935	1,938
	3,602	4,537
	1956	1956
	99,861	93,272
	5,964	132
	105,825	93,404

B Share Premium Account

As at 31st July, 1956
Increase during the year

Less Capital Increase Expenses

C Earnings retained in the business

Parent Company
Subsidiaries

Goodwill written off by Parent Company represents the excess cost of shares in Subsidiary Companies over their net assets at date of acquisition.

D Fixed Assets

	Items to 31/7/47 at cost, less depreciation since 31/7/47	Provision for depreciation since 31/7/47	Total net figure
Freehold and Leasehold Land and Buildings	£ 141,168	£ 79,860	£ 220,999
Plant, Machinery and Motor Vehicles	£ 152,276	£ 138,975	£ 291,251
	293,444	218,835	512,279
Patterns at nominal net figure (as at 31/7/47) (replacements provided for out of revenue)	—	102,113	102,113
	—	87,787	87,787
	—	191,331	191,331
	—	1,000	1,000
	—	192,331	192,331
	—	132,048	132,048

GENERAL

Capital Commitments not provided for in the Accounts are estimated at £45,000 (1956, £72,341), of which £35,000 (1956, £25,000) is expected to mature during the year to 31st July, 1958.

The Company has received non-distribution relief for Profits Tax, which, in the event of subsequent distribution exceeding earnings after 31st July, 1957, may be withdrawn in whole or in part.

* Money in use, on basis of assets values used (as shown).

REPORT OF THE AUDITORS TO THE MEMBERS OF CHARLES WINN & CO., LIMITED

We report that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the annexed Statement of Capital, which is in accordance with the books of account. In our opinion and to the best of our information and according to the explanations given to us, the said Statement of Capital, together with the notes, give the information required by the Companies Act, 1948, in the manner so required, and give a true and fair view of the state of the Company's affairs as at 31st July, 1957.

We have also examined the above Consolidated Statement of Capital and the annexed Consolidated Statement of Earnings of the Company and its Subsidiaries with the audited accounts of those companies, some of which have been audited by another firm. In our opinion, such Consolidated Statement of Capital and Consolidated Statement of Earnings, together with the notes, have been properly prepared in accordance with the provisions of the Companies Act, 1948, so as to give a true and fair view of the state of affairs and of the earnings of Charles Winn & Co., Limited and its Subsidiaries, so far as concerns the members of Charles Winn & Co., Limited.

Birmingham and London.
15th November, 1957.

HOWARD SMITH, THOMPSON & CO.,
Chartered Accountants.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Mr Ronald Staples

SIR, — I should not like the loss suffered by the passing of Mr Ronald Staples to go without some appreciation from one who was a close colleague for a number of years. It would be about 1930 when he asked me if I would be willing to collaborate with him in some of his many enterprises, and this I was most happy to do. My recollection of our relationship then will always be a most pleasant one and, although our paths later diverged, I never met him without receiving the same cheery and appreciative acknowledgment which had been typical of our relationship in those early days. It is with deep regret that I realize that I shall never again be able to shake him by the hand.

Yours faithfully,
Leicester. CECIL A. NEWPORT.

'Pestilential Profit'

SIR, — I found Mr Snell's letter (November 30th issue) as refreshing as the courageous action of the Stockport firm in letting the listening public in on its family conference. But when Mr Snell suggests that a 'simple costing' might take the place of a 'simplified annual expenditure account', he would be giving way to the shop floor and giving away to competition. Puzzle: Find common emphasis for: shareholder, employee, rival, creditor, lender, investor.

Yours faithfully,
Gerrards Cross, Bucks. A. H. JACKSON.

Seals on Contracts

SIR, — The smashing of idols and removing of ancient landmarks goes on apace. Venerable professional bodies are absorbed, endorsements are discarded, and our ancient coinage quakes before the threats of the decimalizers.

May I point out yet another target for the iconoclasts: the seal on contracts. Centuries have passed since this performed the slightest useful function. The Teutonic barbarism of our ancestors found it necessary in their Common Law, but even in its pristine utility it must have been the scorn of the civilians. Now it has become a mere vestige, a blob of sticky paper or of printer's ink, or an ungainly engine on the price of which no tax relief is obtainable. Like all such anachronisms, however, it wastes time, as all have found who have had to seal such documents as share certificates by the thousand. It is time it was abolished.

Yours faithfully,
ROBERT W. J. DERBY, A.C.A.
London, EC2.

Decimal Coinage

SIR, — In 1795, Napoleon Bonaparte finished what had been started in King Louis XVI's days and gave France the complete metric system.

By 1849, Parliament had given Britain a coin, the two-shilling florin, followed by a century of general apathy or, as it is better known, English reserve — except that after 1897 it was realized that the Napoleonic wars were over and one could use the metric system without being fined £5.

In 1860, the copper coinage was redesigned, but still at 240 pence to the £, with the farthing as the smallest coin. Two generations of inflation have multiplied (or divided?) values many times, yet the only suggested reform is for 'farthing decimalization', which sounds like an American term for producing radio-active 'Jenny Wrens'. Surely the basic unit need be no smaller than £0.01, or, for want of a better name, a cent, which is about the present equivalent of the Victorian halfpenny — the original American cent, I believe.

Our Government being in a state of permanent economy (or so it tells us), existing coins would no doubt have to be adapted as far as possible to a decimal system, in which I think it is essential that each coin's value is of one significant figure only, i.e. 1, 2, 5, 10, 20, 50, etc. — simplicity itself!

The nickel 3d could thus be devalued by 20 per cent to serve as the 1 cent piece. The penny could be increased by 20 per cent to $\frac{1}{2}$ cent, or alternatively, to help those who deal in dozens (and also the school of thought which believes in putting off the metric system until man grows twelve fingers) the penny might be reduced (by 20 per cent) to $\frac{1}{3}$ cent, which also retains the same relationship with the 3d nickel. So far as it remains in circulation, the ha'penny would stay as half a penny in either case, but please not as two-fifths as has been suggested.

Since the 'silver' coins all weigh 4 oz. per £, they would all retain their present values as 2½, 5, 10 and 12½ cents. But as it contains two significant figures, a 2½-cent coin would be a nuisance, to say nothing of one of 12½ cent. The half-crown is easily replaceable by more florins; while the sixpence, frequently found too small, by a 2-cent piece, which might be twice the weight of the 1 cent. With ten sides instead of twelve!

If we must fill in the gap between 10 and 50 cents, then 20 cents* appears the most reasonable value to use. But coin or note? A 'silver' coin would weigh four-fifths of an oz., a lot too much; so a new type of coin would be required (with its weight in grams). But on the other hand a note issue for as small as 20 cents should be regarded with the utmost suspicion, in view of the condition of many 10s notes

and the filthy pieces of semi-decipherable paper that abound in Europe and are called bank-notes.

Sir, is it possible that I may have jerked some of your readers out of their comas sufficiently to induce

comment, favourable or otherwise, on my suggestions and also their own ideas on the subject?

Yours faithfully,

Lowestoft.

P. D. LONG.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES ORDINARY MEETING OF THE COUNCIL

At an ordinary meeting of the Council held on Wednesday, December 4th, 1957, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr W. H. Lawson, C.B.E., President, in the chair; Mr W. L. Barrows, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., J. Blakey, W. G. Campbell, P. F. Carpenter, W. S. Carrington, D. A. Clarke, E. C. Corton, C. Croxton-Smith, W. G. Densem, A. S. H. Dicker, Sir Harold Gillett, M.C., Messrs J. Godfrey, P. F. Granger, D. V. House, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs P. D. Irons, R. B. Leech, M.B.E., T.D., R. McNeil, J. H. Mann, W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., P. V. Roberts, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs G. F. Saunders, K. G. Shuttleworth, C. M. Strachan, O.B.E., J. E. Talbot, E. D. Taylor, G. L. C. Touche, A. D. Walker, V. Walton, M. Wheatley Jones, E. F. G. Whinney, J. C. M. Williams, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

After they had been appointed to membership of the Council the new Council members named below were also present with the exception of Mr L. C. Hawkins and Mr H. L. Layton, M.S.M., who were unable to attend.

Welcome to New Member

The President welcomed Mr J. C. Montgomery Williams, who was attending for the first time as a member of the Council. Mr Williams briefly replied.

Members admitted pursuant to the Scheme of Integration referred to in clause 34 of the Supple- mental Charter

- § Ainsworth, John, M.B.E., M.COM.; (1957); F.S.A.A., 1935; A.S.A.A., 1927; Treasurer, City of Liverpool Corporation, Municipal Buildings, Liverpool, 2.
- ¶ Baldry, Edward; F.C.A., 1957; (S.1919, f.1930); (*Allen, Baldry, Holman & Best), Bilbao House, 36 New Broad Street, London, EC2.
- ¶ Barrowcliff, Charles Percy; F.C.A., 1957; (S.1909, f.1920); (*C. Percy Barrowcliff & Co), 55-57 Albert Road, Middlesbrough, and at Leeds, Newcastle upon Tyne and Wakefield.
- Hawkins, Leonard Cecil; A.C.A., 1957; (S.1926, f.1944); Member of the London Transport Executive, 55 Broadway, London, SW1.
- ¶ Heaton, James Stanley; F.C.A., 1957; (S.1935, f.1950); (*Bottomley & Smith), Halifax Permanent Chambers, Keighley.
- ¶ Johnson, Hugh Oliver; F.C.A., 1957; (S.1921, f.1924); (*Mundy, Brewer & Johnson), 37 Great Pulteney Street, Bath.
- ¶ Nelson, William Bertram, C.B.E.; F.C.A., 1957; (S.1929,

f.1933); (*Lithgow, Nelson & Co), Derby Square, Liverpool, and at London and Southport.
¶ Price, Frank Edward; F.C.A., 1957; (S.1926, f.1946); (*Arthur Collins & Co), Royal Chambers, High Street, Newport, Mon., and at London.

Notes

§ means 'Incorporated Accountant Member'.

¶ means 'In practice'.

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of Chartered Accountants in Great Britain and Ireland.

S means the year of admission to membership of the Society of Incorporated Accountants.

f means the year of election to fellowship of the Society of Incorporated Accountants.

New Members of the Council

The following were appointed members of the Council to fill the ten vacancies created by clause 18 of the scheme of integration referred to in clause 34 of the Supplemental Charter:

- § Mr John Ainsworth, M.B.E., M.COM., F.S.A.A.
- ¶ „ Edward Baldry, F.C.A.
- ¶ „ Charles Percy Barrowcliff, F.C.A.
- ¶ „ Leonard Cecil Hawkins, A.C.A.
- ¶ „ James Stanley Heaton, F.C.A.
- ¶ „ Hugh Oliver Johnson, F.C.A.
- ¶ „ Harold Leslie Layton, M.S.M., F.C.A.
- ¶ „ William Bertram Nelson, C.B.E., F.C.A.
- ¶ „ Frank Edward Price, F.C.A.
- ¶ „ Sir Richard Ernest Yeabsley, C.B.E., F.C.A.

As indicated at the beginning of this report, eight of these ten new Council members then attended the Council meeting. They were welcomed by the President and by the senior Past President, Sir Harold Howitt. Sir Richard Yeabsley replied for them.

Appointments to Committees

The Council made the following appointments to Committees:

- Mr J. C. Montgomery Williams - District Societies Committee.
- Sir Richard Yeabsley - General Purposes Committee.

Oxford Historic Buildings Appeal

The President reported that he had received a cordial letter, dated November 13th, 1957, from the Vice-Chancellor of Oxford University, thanking members of the Institute for their response to the Oxford Historic Buildings appeal.

Articled Clerks Engaging in Other Business

One application under bye-law 57 from an articled clerk to engage during his service under articles in other business for the sole purpose and to the limited extent specified in his application was acceded to.

Articled Clerks in Industrial Organizations

Four applications under bye-law 58 (c) from articled clerks to spend a period not exceeding six months in an industrial or commercial organization during service under articles were acceded to.

Certificates of Practice

The following eighteen applications for certificates of practice from associates who have commenced to practise were acceded to:

Baron Cohen, Gerald, B.A.; 1957, A.C.A.; (Baron Cohen & Co), Suite 3, Cecil House, 41 Charing Cross Road, London, WC2.
 Baynes, Keith William; 1957, A.C.A.; (K. W. Baynes & Co), 18 The Pavement, High Road, Chadwell Heath, Essex.
 Brandt, Richard, M.A.; 1957, A.C.A.; (G. Dixey & Co), 9A Sackville Street, Piccadilly, London, W1.
 Buckler, Robert; 1939, A.C.A.; 2 Fareham Avenue, Rugby.
 Collins, Ronald Michael; 1953, A.C.A.; 11 Sandymeade, Prestwich, Lancs.
 Crosby, Derek Richard George; 1952, A.C.A.; 59 Belstead Road, Ipswich.
 Dodd, Peter Trevor Johnstone; 1957, A.C.A.; (Cole, Dickin & Hills), 18 Essex Street, Strand, London, WC2, and at Bourne, Falmouth, Grimsby and Sleaford.
 Greenslade, Malcolm Henry, B.Sc.(ECON.); 1957, A.C.A.; (Greenslade & Co), 297-302 Dashwood House, 69 Old Broad Street, London EC2, and at Northampton.
 Hawken, Ronald Arthur; 1957, A.C.A.; (Rushton Osborne & Co), Bank Chambers, 1 John Street, Bedford Row, London, WC1.
 Howarth, Raymond; 1957, A.C.A.; (Kaye, Howarth & Co), Alexandra Chambers, 32 John William Street, Huddersfield.
 Hudson, Henry Lawrence; 1949, A.C.A.; 77 Windy Arbour, Kenilworth, Warwicks.
 Lambert, David Henry Martin; 1935, A.C.A.; (*Burston, Dimmock & Co), 5 King Square, Bridgwater, Somerset, and at Street.
 Landau, Malcolm Charles; 1957, A.C.A.; (M. C. Landau

* against the name of a firm indicates that the firm is not wholly composed of members of one or the other of the three Institutes of chartered accountants in Great Britain and Ireland.

& Co), 15 Nevilles Court, Dollis Hill Lane, London, NW2.

Lawley, Barry William; 1957, A.C.A.; (G. H. C. Stanley & Co), Lombard House, Great Charles Street, Birmingham, 3.
 Murphy, Joseph Daniel; 1951, A.C.A.; (Powell & Griffith), 11A St Albans Road, Watford, and at St Albans.
 Travers, Ralph Bernard James William; 1950, A.C.A.; (Barnett & Turner), 68 West Gate, Mansfield, Notts.
 Wagner, Sidney; 1957, A.C.A.; (Sidney Wagner & Co), 64 Markmanor Avenue, Walthamstow, London, E17.
 Wood, Terence Colin; 1957, A.C.A.; (Love & Round), Inhedge House, 31 Wolverhampton Street, Dudley, and at Birmingham.

Resignation

The Council accepted the resignation from membership of the Institute of:

Ram, Dilsukh, B.A., LL.B., A.C.A., Hyderabad.
 Williams, Vernon Gibson Pascoe, M.A., A.C.A., London.
 (To take effect from December 31st, 1957.)

Chairmen and Vice-Chairmen of Committees

The Secretary reported that Sir Harold Gillett had been appointed Chairman and Mr G. F. Saunders Vice-Chairman of the Disciplinary Committee.

At the meeting of the Council, held on November 6th, 1957, it was reported that Mr P. F. Carpenter had been elected Chairman and Mr W. G. Densom Vice-Chairman of the Examination Committee, with effect from October 17th, 1957.

The Council placed on record its appreciation of Mr W. G. Campbell's services as an examiner and moderator and, in particular, as Chairman of the Examination Committee of which he is still a member.

Change of Name

The Secretary reported that the following change of name has been made in the Institute records:

Henry Isaacson to Henry Jackson.

Deaths

The Council received with regret the Secretary's report of the deaths of the following members:

Mr George Christian Carter, M.C., F.C.A., London.
 „ Frank Gardiner Fedden, F.C.A., Goring-on-Thames.
 „ Noël Stephen Edward Hall, A.C.A., London.
 „ Frank Albert Lord, F.C.A., London.
 „ Norman Morrison, B.A., A.C.A., Coggleshall.
 „ Hugh Thomas Mullins, A.C.A., Bovingdon.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on November 5th and 6th, 1957.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Frank Mather Pilkington, A.C.A., had been guilty of an act or default discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that (a) he failed to reply to or take any action in response to four letters written to him by a member of the Institute relating to a client, and (b) he failed to reply to and/or take any action in response to three letters addressed to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of

the Institute. The Committee found that the formal complaint against Frank Mather Pilkington, A.C.A., had been proved under both headings and the Committee ordered that Frank Mather Pilkington, A.C.A., of Aldwyn, Limefield, Blackburn, Lancashire, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Bertram Ernest Brayshaw, A.C.A., was convicted at Assizes, on July 8th, 1957, of six charges, namely,

(1) On or about September 19th, 1941, at Leeds, with intent to defraud and to the prejudice of His Late Majesty King George the Sixth and the Commissioners of Inland Revenue causing to be delivered to an Inspector of Taxes an account purporting to be a true trading and profit and loss account of the business of a limited company for the year ending February 28th, 1941, and balance sheet as at that date, which account falsely stated that the profits of the said business for the said year amounted to £548 19s 5½d, whereas in fact the true profits largely exceeded that sum.

(2) On or about November 9th, 1942, at Leeds, with intent to defraud, a similar offence for the year ending February 28th, 1942, stating that the profits for that year amounted to £1,373 3s 8½d, whereas in fact the true profits largely exceeded that sum.

(3) On or about December 23rd, 1943, at Leeds, with intent to defraud, a similar offence for the year ending February 28th, 1943, stating that the profits for that year amounted to £3,505 14s 5½d, whereas in fact the true profits largely exceeded that sum.

(4) On or about October 30th, 1944, at Leeds, with intent to defraud, a similar offence for the year ending February 28th, 1944, stating that the profits for the year amounted to £3,815 18s 5d, whereas in fact the true profits largely exceeded that sum.

(5) On or about December 10th, 1945, at Leeds, with intent to defraud, a similar offence for the year ending February 28th, 1945, stating that the profits for that year amounted to £5,700 0s 11½d, whereas in fact the true profits largely exceeded that sum.

(6) On divers days between March 1st, 1940, and

December 31st, 1954, at Leeds, conspiring together with a certain person and other persons unknown, to cheat and defraud His Late Majesty King George the Sixth, Her Majesty The Queen and the Commissioners of Inland Revenue of sums of money due to them in respect of tax due from the same limited company, by false accounts, false returns and false statements, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Bertram Ernest Brayshaw, A.C.A., had been proved and the Committee ordered that Bertram Ernest Brayshaw, A.C.A., formerly of Martins Bank Chambers, Otley, Yorkshire, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a practising member of the Institute had been guilty of an act or default discreditable to a member within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that he permitted and/or failed to take proper steps to prevent the publication in two Middle East newspapers of advertisements relating to the firm of which he was a partner, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and ordered that the member be reprimanded, but the Committee considered that there existed special circumstances justifying the omission of his name from the publication of the finding and decision.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Accounting Trends and Techniques in published corporate annual reports. (American Institute of Accountants.) Eleventh edition. New York. 1957. (Presented.)
The Auditor Encounters Electronic Data Processing. (Price Waterhouse & Co.) New York. 1957. (Presented.)
*Buckley on the Companies Acts; by . . . Lord Wrenbury . . . formerly Lord Justice Buckley. Thirteenth edition, by J. B. Lindon. 1957. (Butterworth, 137s 6d.)
Business Accounts: a course in book-keeping on modern lines; by L. A. Terry and W. T. Smith. Third edition. 1957. (Pitman, 13s 6d.)
Business Statistics and Statistical Method; by H. J. Wheldon. Fourth edition, by G. L. Thirkettle. 1957. (Macdonald & Evans, 15s.)
Chartered Accountants' Australian Congress, May 6th-10th, 1957. (Institute of Chartered Accountants in Australia.) Croydon, N.S.W. 1957. (I.C.A. in A., presented.)
Cost Accounts; by W. W. Bigg, F.C.A. Seventh edition. 1957. (Macdonald & Evans, 18s.)
*The Death Duties; by R. Dymond and R. K. Johns. Twelfth edition. 1955. Second supplement, by R. Dymond and R. K. Johns. 1957. (Solicitors' Law Stationery Society, 95s and 15s.)
A Dictionary for Accountants; by E. L. Kohler. Second edition. Englewood Cliffs, N.J. 1957. (Prentice-Hall, 68s.)
Digital Computer Programming; by D. D. McCracken. New York. 1957. (John Wiley, 62s.)
Estate Capital: the contribution of land ownership to agricultural finance; by D. R. Denman. 1957. (George Allen & Unwin, 22s 6d.)
An Estate Duty Notebook; by G. B. Graham. Second edition. 1957. (Solicitors' Law Stationery Society, 17s 6d.)
Finance Act, 1957. (Eire.) Dublin. 1957. (Government Publication, Dublin, 2s 6d.)

The Finance Act, 1957, with introductions and quotations. (Butterworth & Co.) 1957. (Butterworth, 15s.)
Hire-purchase and Credit Sales; by W. D. Park. 1957. (Solicitors' Law Stationery Society, 9s 6d.)
Income Tax Law and Practice; by C. A. Newport and H. G. S. Plunkett. Twenty-seventh edition. 1956. Supplement 1957. (Sweet & Maxwell, 30s and 3s 6d.)
Interview Case Studies; by J. M. Fraser. 1957. (Macdonald & Evans, 18s.)
An Introduction to Automatic Digital Computers; by R. K. Livesley. 1957. (C.U.P., 8s 6d.)
The Law relating to Bankruptcy, Deeds of Arrangement, Receiverships and Trusteeships; by O. Griffiths. Sixth edition. 1957. (Textbooks, 20s.)
Managers: making or marring them; by J. D. Edwards. 1957. (Macdonald & Evans, 17s 6d.)
On the Decline in the value of Money: (Stamp memorial lecture); by R. G. D. Allen. 1957. (Athlone Press, 3s 6d.)
The Organization Man; by W. H. Whyte. 1957. (Jonathan Cape, 25s.)
The Rent Act, 1957, and other legislation dealing with controlled tenancies . . . ; by R. Steel. 1957. (Royal Institution of Chartered Surveyors, 15s.)
Rural Estate Management, by R. C. Walsmsley. Third edition. 1955. Supplement 1957. (Estates Gazette, 42s.)
Sales Taxation; by J. F. Due. 1957. (Routledge & Kegan Paul, 40s.)
A Simple System of Economic Analysis of a Farm Business; by C. H. Blagburn. 1957. (University of Reading, 7s 6d.)
Unit Stock and Store Control; by H. Dennett. 1957. (Business Publications, 25s.)

*These books have been presented by the Institute to all District Society Libraries under the grant of books scheme.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Record Attendance at Forty-fourth Annual Dinner

The forty-fourth annual dinner of The Chartered Accountant Students' Society of London was held at Grosvenor House last Monday and was attended by over 1,200 members and guests. Sir Harold Gillett, M.C., F.C.A., President of the Society, occupied the chair.

Among those present were Mr R. R. Hancock, M.A., Chairman of the Headmasters' Conference; Sir David Keir, M.A., Master of Balliol College, Oxford; Mr W. H. Lawson, C.B.E., B.A., F.C.A., President, The Institute of Chartered Accountants in England and Wales; the Rt. Hon. R. McKinnon Wood, O.B.E., M.A., F.R.A.E.S., J.P., Chairman, London County Council; and

Messrs R. Adams, C.A. (Chairman, Association of Scottish Chartered Accountants in London); Messrs W. M. Allen, B.A. (an Assistant Secretary, The Institute of Chartered Accountants in England and Wales); H. Garton Ash, O.B.E., M.C., F.C.A. (Past President, The Institute of Chartered Accountants in England and Wales); W. L. Barrows, F.C.A. (Vice-President, The Institute of Chartered Accountants in England and Wales); Sir Harold Barton, F.C.A. (Past President, The Institute of Chartered Accountants in England and Wales; Vice-President of the Students' Society); Messrs R. P. Baulkwill, C.B.E. (Public Trustee).

Professor W. T. Baxter, B.COM., C.A. (Professor of Accounting, University of London); Sir Hugh Beaver (President, The Federation of British Industries); The Rt. Hon. and Rt. Rev. H. C. Montgomery Campbell, M.C., D.D. (The Lord Bishop of London); Messrs W. S. Carrington, F.C.A. (Past President, The Institute of Chartered Accountants in England and Wales); A. D. Chesterfield (Chief General Manager, Westminster Bank Ltd); Douglas A. Clarke, LL.B., F.C.A. (Member of the Council, The Institute of Chartered Accountants in England and Wales; Vice-President, the Students' Society); Leslie Cork; H. O. H. Coulson, F.C.A. (Honorary Auditor of the Students' Society).

Messrs A. W. C. Dascombe (Secretary, The Bank of England); H. J. S. French, O.B.E., B.C.L. (Director, London and Yorkshire Trust Ltd); D. V. House, F.C.A. (Past President, The Institute of Chartered Accountants in England and Wales); Sir Henry Hancock, K.C.B., K.B.E., C.M.G. (Chairman, Board of Inland Revenue); Air Chief Marshal Sir Donald Hardman, K.C.B., O.B.E., D.F.C. (Air Member for Supplies and Organization); Messrs M. G. J. Harvey, A.C.A. (Accountant, The Institute of Chartered Accountants in England and Wales); R. F. Henderson, M.A., PH.D. (Fellow and Treasurer of Corpus Christi College, Cambridge).

Messrs E. Milner Holland, Q.C. (Chairman, The General Council of the Bar); Richard Hyde (Chairman of the Baltic Exchange); F. Keighley (Chief General Manager, National Provincial Bank); Sir Harold Kent, K.C.B. (Treasury Solicitor); Messrs P. Legge (Member of the Stock Exchange); C. H. S. Loveday, A.C.A. (an Assistant Secretary, The Institute of Chartered Accountants in England and Wales); Col. W. E. Loweth, C.B.E., D.L., J.T.C.C. (Prime Warden, the Basketmakers Company); Mr Alan S. MacIver, M.C., B.A. (Secretary, The Institute of Chartered Accountants in England and Wales).

Messrs L. C. McCracken (Chairman of the Students' Society

Committee); Brian Manning, D.L., J.P., F.C.A. (Vice-President of the Students' Society); R. P. Matthews, J.P., B.COM., F.C.A. (Hon. Treasurer of the Students' Society); A. C. S. Meynell, F.A.C.C.A. (President, The Association of Certified and Corporate Accountants); C. D. Morley (Secretary, the Council of the Stock Exchange); E. H. Nichols, T.D., B.A., LL.B. (Town Clerk, The City of London); L. J. H. Noyes, B.SC. (ECON.), A.C.A. (Secretary, Taxation and Research Committee, The Institute of Chartered Accountants in England and Wales); B. M. O'Regan, B.SC. (ECON.) (Vice-Chairman of the Students' Society Committee); Sir Arnold Plant, B.SC. (ECON.), B.COM. (Sir Ernest Cassel Professor of Commerce, University of London); Sir Thomas Robson, M.B.E., M.A., F.C.A. (Past President, The Institute of Chartered Accountants in England and Wales; Vice-President of the Students' Society); The Rt. Hon. Sir Hartley Shawcross, Q.C., M.P.; Mr H. W. Thomson (Librarian, The Institute of Chartered Accountants in England and Wales); Sir Lionel Thompson, C.B.E. (Deputy Master, The Royal Mint).

Mr R. S. Thorp, F.C.I.I. (President, The Chartered Insurance Institute); Rear Admiral R. D. Watson, C.B., C.B.E. (Fourth Sea Lord); Mr A. E. Webb (Editor, 'The Accountant'); Brigadier L. F. E. Wieler, C.B., C.B.E. (Major and Resident Governor, The Tower of London); Messrs C. F. Wood, A.S.A., F.I.A. (President, The Institute of Actuaries); E. Kenneth Wright, M.A., F.C.A. (Chairman, London and District Society of Chartered Accountants); Mrs E. M. Wright, A.C.A. (Chairman, Women Chartered Accountants' Dining Society); Mr G. S. A. Wheatcroft, J.P., M.A., F.I.A.A., F.I.I.T. (Master of the Supreme Court, Editor of 'The British Tax Review'); Sir Richard Yeabsley, C.B.E., F.C.A.; Mr I. D. Yeaman (President, The Law Society).

A Vital Quality

Proposing the toast of 'The Students' Society' in the unavoidable absence of General Sir Nevil Brownjohn, Mr Hancock said that the profession fully justified the status and confidence which it enjoyed. He said:

'Indeed, it is an almost awe-inspiring thought to reflect on the extent of the authority and importance which will be in the hands of all you ladies and gentlemen in about twenty years' time. The standing of your profession owes most to the quality of its members. If I, as an outsider, was asked to name the quality in particular which contributes to the confidence which you so rightly enjoy amongst the public, I should summarize it in the term "integrity", which is a product which explains why the chartered accountant will never be replaced by the electronic computer.' (Laughter.)

'I believe very much that the question of the personal dynamism of your profession and other professions is one which has great significance. It is my belief that the biggest contribution which could be made to the future of this exciting and challenging world is that the essential qualities of this country can be brought into much more use all over the world.

'There are a certain number of excellent young men who, achieving the notoriety I believe they deserve - although one cannot help feeling their ideas would benefit by being a little longer in the oven - (laughter) - believe that this country has completed any usefulness it may ever

have had, and that we should now put down the responsibilities which we have acquired in some way they are never very clear about, and we should resign ourselves to being a tourist centre full of "olde tea shoppes" on the periphery of world affairs. I believe this conclusion is due to a complete misreading of the history of our people.' (*Hear, hear.*) 'In the old days, when British influence has played its part in the world, it has been based on three factors: the quality of our ideals, the faith with which you supported them, and the quality of our people.'

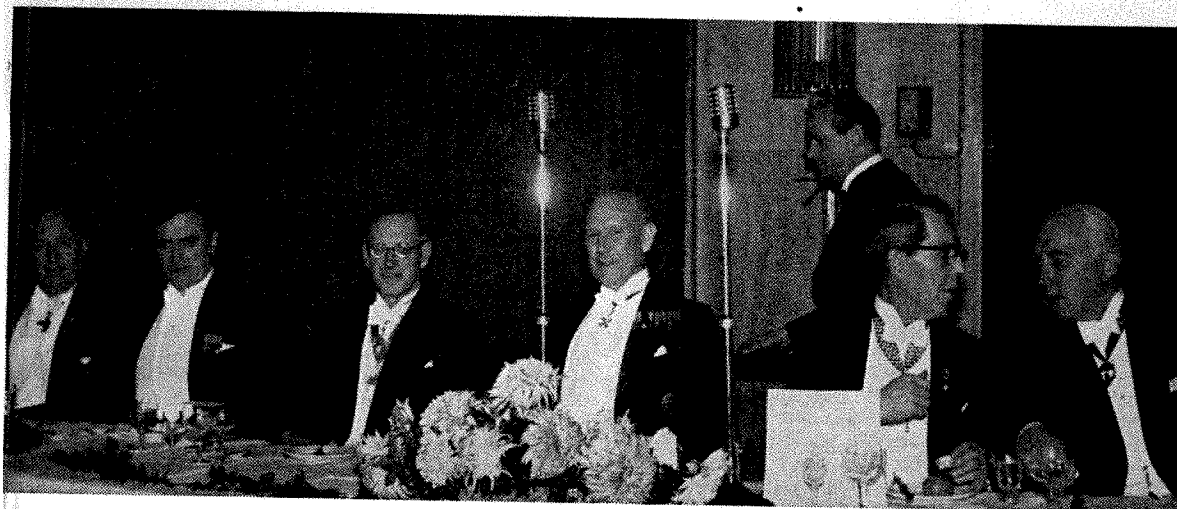
'I am, as you know, by trade a schoolmaster. It is my fortune, therefore, to be in touch with young people and it is my earnest conviction that never in her long history

recently, I am told, it was more easy to be taken into partnership by marrying the master's daughter.' (*Laughter.*)

'The second part of our training is with the coaches and the various tuition courses that are run for our approach to the examination. I will say no more about that because I have my examinations very shortly and it might be rash to criticize or even to praise.' (*Laughter.*) 'Thirdly, we have the Students' Society and it is the job of that Society to fill in the gaps.'

Mr McCracken said that the Students' Society organized various functions with two aims in mind.

'They were,' he said, 'first of all education gained by one



At the top table (left to right): Sir Richard Yeabsley, C.B.E., F.C.A.; Sir David Keir, M.A., LL.D., Master of Balliol College, Oxford; Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute; Sir Harold Gillett, M.C., F.C.A., President of the Students' Society; Mr R. McKinnon Wood, O.B.E., M.A., F.R.A.E.S., J.P., Chairman of the London County Council; Mr W. L. Barrows, F.C.A., Vice-President of the Institute.

has this country had better human material than our young people today.' (*Applause.*)

Referring to the need for example and leadership, Mr Hancock concluded:

'Example they may get from people of the incredible antiquity of myself.' (*Laughter.*) 'Leadership they will get from your generation. It is from societies like yours with people of ability and social responsibility and courage that they will get that much-needed leadership. It is for that reason that I am very grateful to the Society for conferring upon me the honour of proposing this toast, because in doing so I feel I shall be proposing the toast of people who will contribute to seeing that the future of this great, noble and ancient realm will be worthy in all respects of its magnificence in the past.' (*Applause.*)

Training for the Profession

Responding to the toast, Mr Leslie G. McCracken, Chairman of the Students' Society Committee, wittily explained the function of the Students' Society. He said:

'There is a great deal of doubt in the minds of principals and students about what the Society does. The Students' Society is one of the three constituent parts which make up an articled clerk's training for entry into the profession. First of all there is the office through which he gets practical training. This is a direct link with the past - (*laughter*) - where the apprentice would work under his master. Until

student working and talking with one another - when two students meet together they generate quite a lot of talk - and at this point I would like to thank the Master of Balliol, who is with us tonight, for having put up with us in the past. The residential courses at Oxford provide us with our most important function. Students go to Balliol College for four days, when some notable speakers give us lectures, and the rest of the time is taken up with discussion.'

He went on:

'The other object of our Society is to bring the student members closely in touch with the senior members of the Institute. They do not always have the opportunity to meet the very distinguished and learned men who lead the profession, and it is only through the Students' Society and the lectures and the various functions we have arranged that they meet our senior officers and they are able to talk about and discuss their problems with them. That is a privilege of which we are very proud. I do not think any other profession has that privilege. That is the basis of the Students' Society, but we must always try to be abreast of the times, if not ahead of them.'

Saying that the Students' Society had got to adapt itself to changing times, Mr McCracken said:

'We on the committee are often criticized for doing what we think is best for the Society and not necessarily what the Society thinks best for itself. But I think we have to keep an open mind on that point and try and do everything we can to meet changing conditions.'

Concluding, Mr McCracken said how genuinely

grateful the Society was to all those members of the profession who have helped it, and how especially grateful they were to Sir Harold Gillett (*applause*) who had devoted himself to the Society and given up an extraordinary amount of time to its affairs.

Spirit of Comradeship

Proposing the toast of 'The Visitors', Sir Harold Gillett said that he much appreciated the kind remarks that Mr McCracken had made and himself paid tribute to the work of Mr Carter and Miss Large. He said:

'To them is the credit, and it should be given to them. Enthusiasm breeds enthusiasm and I and others in the profession will always devote ourselves to the work of the Students' Society because it is not only rewarding but makes friends among the younger people who will be carrying on the thread in the years to come.'

He continued:

'This is the largest meeting we have ever had of the Students' Society and it heralds the greater nights that are to come when, after the beginning of next year, we issue the most cordial invitation to the members of the Society to join in with us.' (*Hear, hear.*) 'Whether next year we come here, or to the Albert Hall or the Royal Festival Hall, the same spirit will actuate us all the way through – the spirit of comradeship. Tonight we are paying honour to our guests, the guests of the individual members who are sitting round the body of the hall and to the great body of distinguished persons who are sitting at this top table. I am not going to enumerate them; they are all set out very clearly in your "book of words" but you must agree with me that they represent a very big section of professional, public and every kind of business life of which you can think. We thank them for honouring us by being here this evening. It is a great compliment to this Society that men who are so busy in their normal lives can spare us the time to come here this evening and, by their presence, encourage us for the future.'

'I would like especially to make two references: one to the Lord Bishop of London with whom, through my old regiment – the Middlesex Regiment – I have a great bond of friendship, and we also welcome our lady guest at the top table, Mrs E. M. Wright, the Chairman of the Women Chartered Accountants' Dining Society. We thank all these distinguished persons for the time and trouble they take to give us help in our daily work in all sorts of ways, and on behalf of the Students' Society I wish to say "Thank you" to them all. We are delighted to have them with us and we hope we shall have them again next year.' (*Applause.*)

Responding, Mr McKinnon-Wood referred to this scientific age and its impact on education. He went on:

'The whole tendency in the past has been for increasing specialization, with the production of more and more highly specialized experts – people who know more and more about less and less until, it is suggested, they end up by knowing everything about nothing.' (*Laughter.*) 'We are beginning to realize that while this production of experts is necessary and the field in which they are expert will have to contract, it is necessary to broaden the basis of education of these experts.'

Union of Resources

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Sir David Keir. In the course of his speech he said:

'This will be the last occasion on which, at a students' dinner of this kind, the Institute will still present itself as your guests and guides in its historic form. You have just achieved, as, I think rightly, wisely, patiently and with an abundance of generous statesmanship on both

sides, a union of resources which promises well for the unified profession of the future. Now, gentlemen, I am a Scotsman and I am well accustomed to seeing unions of various kinds (*laughter*); some of them have been blessed by the law and others not conspicuously encouraged – (*laughter*) – but never before have I had the good fortune to sit with one bit of the union on my left and one bit of the union on my right, and I give them the kind of blessing that all well-disposed persons will give to this marriage which has taken place and which I hope will be as happy as can be expected and will bring forth results.' (*Laughter.*)

'I like the sound of it very much indeed. On the one hand you have the word "chartered" with its note of adventure, freedom and enterprise, and on the other the incorporated side with that other essential of the British character: stability, continuity, the power to hold real liberty and to have a seal and to enjoy perpetual succession.' (*Laughter.*)

'I do not think two bodies could be more aptly tuned to each other than the "chartered" on my left and the "incorporated" on my right.' (*Applause.*)

Care with the Figures

Mr Lawson responded to the toast and said, humorously:

'It may be that students will be expecting to receive a few hints from me this evening. Let me try my hand at it. Firstly, do please be careful about using figures. Remember what dangerous things they are and how they can be misunderstood. For example, an American politician speaking at a public meeting claimed that 50,000 miles of roads had been built within the last decade. A member of the audience immediately inquired whether he was aware that, in the same period, private enterprise had built 250,000 miles of automobiles – parked bumper to bumper.' (*Laughter.*)

'Secondly, do not be put off because your clients do not hold you in the same high esteem as you hold yourself. Be like our member – and I am sure it must have been a member of this Institute and no other – who, when asked in the witness box whom he considered was the best accountant in the country, replied without hesitation, "I am". When his friends asked him after the hearing whether he did not think that remark was unfortunate, that it might damage the case because the Court would feel that he was lacking in modesty, he replied, "On reflection I think you are right but what else could I do, I was on oath".' (*Laughter.*)

30,000 Members

Continuing in more serious vein, Mr Lawson said that as a result of the scheme of integration, membership of the Institute would number about 30,000 and comprised within the membership would be an overwhelming proportion of all those who are in public practice in England and Wales. He added:

'We have always had a great responsibility for setting the standards of the profession and for providing the best possible service for the public who are our clients. That responsibility has been further increased by integration and that is a fact we must never forget. It must govern our policy on recruitment, education and technical and ethical standards. On the Council we shall, I hope, continue to give a lead to the profession on all these matters but as a profession we shall be judged not by the pronouncement of the Council but by the actions of our members, including in due course in that category, I hope, all who are here tonight.' (*Applause.*)

Sir Harold Gillett concluded the proceedings with a word of thanks to all those responsible for the excellent arrangements for the dinner.

DINNER IN EXETER

Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants

The annual dinner of the Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants was held at *The Imperial Hotel*, Exeter, on December 6th. The Branch chairman, Mr C. W. Puckett, F.C.A., presided, and together with Mr A. S. H. Dicker, M.B.E., F.C.A., Immediate Past President of The Institute of Chartered Accountants of England and Wales, received the members and guests.

Among those present were Councillor Lieut.-Col. R. H. Creasy, the Mayor of Exeter; Mr K. C. H. Rowe, M.B.E., J.P., the Sheriff of Exeter; Prof. J. Sykes, O.B.E., M.A., M.COM., PH.D., Professor of Economics, University of Exeter; Mr S. McClelland, M.A., H.M. Inspector of Taxes, Plymouth 1st District; and

Dr J. W. Cook, F.R.S. (*The Vice-Chancellor of the University of Exeter*); Messrs S. W. Cornwell (*Former Member of the Council of the Institute*); C. Croxton-Smith, M.A., LL.B. (*Member of the Council of the Institute*); S. Edgcombe (*Vice-Chairman, Cornwall and Plymouth Branch of the Bristol and West of England Society of Chartered Accountants*); D. F. Jewers (*Hon. Secretary, Cornwall and Plymouth Branch of the Bristol and West of England Society of Chartered Accountants*); J. A. Isaac (*President, The Incorporated Accountants District Society of Devon and Cornwall*).

Messrs G. G. E. Lucas (*H.M. Inspector of Taxes, Exeter 1st District*); R. C. Mitchell (*H.M. Inspector of Taxes, Exeter 2nd District*); P. V. Roberts (*Member of the Council of the Institute*); A. L. Rowell (*Secretary, Bristol Society of Chartered Accountants*); W. A. Slee (*President, Exeter and District Local Centre of the Institute of Bankers*); G. Tomlinson (*Secretary, Western Counties Branch of Chartered Auctioneers and Estate Agents*).

The toast of 'The City and County of Exeter' was proposed by Mr McClelland and Lieut.-Col. Creasy replied.

Momentous Change

Responding to the toast of 'The Institute of Chartered Accountants in England and Wales', which had been proposed by Mr Rowe, Mr Dicker referred to the scheme of integration of members of The Society of Incorporated Accountants with the Institute. He said:

'This scheme is now virtually completed, and during the next few months we at headquarters shall be dealing with the applications and formal registration of up to 9,000 incorporated accountants. These formalities are bound to take time and it is hoped that they will be completed by March.

Some anxiety had been expressed that there was a risk of 'watering-down' the Institute's high standards. This was not so, and he wished to make it quite clear that the Institute was not altering its regulations in any respect. He continued:

'There must naturally be some transitional concessions, and the right of sitting tenants must be respected; but after these, our fundamental requirements of service under articles and qualification through our examinations at their present high level will continue to govern admission to membership of the Institute.

'To our friends here tonight who are not members of our Institute I would say that I hope that they will recognize that one of the great advantages of integration is that

we are now one body instead of two, and so able to talk with one voice.

Tribute to Mr Ronald Staples

Mr Dicker then made reference to Mr Ronald Staples, whose death occurred on the previous day, and said:

'It seems only a few weeks ago that nearly 1,000 accountants and others interested were enjoying the Seventh National Taxation Conference at Torquay so successfully organized by Mr Ronald Staples, and I see quite a number here tonight who were at that conference.

'Mr Staples devoted his activities very much to the interests of the professional accountant, especially as regards his many taxation problems and difficulties, and he was the author of several books on taxation, at least one of which can be found in most accountants' offices.

'The accountancy profession owes much to his many interests. Those who knew him will miss the charm of his personality, but his works will live and by these his name will be remembered for many years.'

Mr Dicker went on to speak of the relationship between professions. They had all experienced occasions, he said, when doubt, possibly combined with some resentment, had influenced their attitude of mind; when, in their opinion, work which they considered was properly within their own sphere, seemed to be in the hands of another professional body. Of course the reverse was true with accountants as the 'suspects'. He continued:

'Looking back over thirty years' experience, I have in mind cases of accountants dabbling in legal agreements, solicitors purporting to produce trading and profit and loss accounts, banks accused of unfair competition in tax work by their privilege of advertising, and the various bodies associated with landed property dealing with the accountancy work on various activities of the farming industry, and so forth.

Common Sense and Goodwill

Gradually common sense and goodwill prevailed, as it always does in the end, and during the last decade a great deal of sorting out and tidying up had been done happily by agreements - chiefly by what is known as gentlemen's agreements - between the various professional bodies.

'I am an accountant practising in the provinces, in the wilds of East Anglia, and I know only too well what has been happening; I have every reason to believe that the friendly and co-operative understanding which now exists between the professions in my part of England also exists here and throughout the country generally.

'I can assure you that over a period of many years conversations have taken place between representatives of the leading professional bodies at highest national level, again resulting in satisfactory understanding; and there is no doubt that the advice which has been passed down to individual members of all societies has been accepted in the proper spirit.

'What it comes to is that there is plenty of work for us all, each profession has a well-defined sphere of activity, and each of us should stick to the job for which he was specifically trained, and be only too glad to work in co-operation with the other professions in matters in which they are expert.'

The toast of 'Our Guests' was proposed by Mr Puckett, who spoke of the valuable work done by the Institute. Professor Sykes responded.

Notes and Notices

PERSONAL

MR ROGER CURZON, A.C.A., of 67 North Hill, Colchester, Essex, announces that as from December 1st, 1957, he has taken into partnership Mr ROWLAND BASIL RIX, A.C.A. The name of the firm will be CURZON, RIX & Co, Chartered Accountants.

MESSRS FIELD & Co, Incorporated Accountants, of 62-64 Brook Street, London, W1, and at Royal Chambers, Park Place, Cardiff, announce that as from December 1st, 1957, Mr I. FIELD, F.S.A.A., has retired and Mr LAURENCE ATLAS, A.C.A., has taken over the practice. The name of the firm is changed to FIELD, ATLAS & Co, Chartered Accountants.

OBITUARY

GUY WATERWORTH, F.C.A.

It is with regret that we have learned of the death on November 28th, in Accrington, of Mr Guy Waterworth, F.C.A., senior partner in the firm of Waterworth, Rudd & Hare, Chartered Accountants, of Blackburn, with whom he had been associated for forty-eight years.

Mr Waterworth, who was 72, was the elder son of the late Mr Thomas Waterworth, founder of Waterworth, Rudd & Hare. He was educated at Sedburgh, where he showed a keen aptitude for sport. After leaving the school he played rugby with Preston Grasshoppers and was a founder member of Blackburn Rugby Club.

Mr Waterworth was admitted an Associate of the Institute in 1909 and was elected to Fellowship in 1922. During the year 1955-56 he was President of the Manchester Society of Chartered Accountants.

He was an active Freemason and in the Grand Lodge of England he had held the rank of Past-Assistant Grand Director of Ceremonies.

CHARTERED ACCOUNTANT TO BE ORDAINED

Mr R. P. Angwin, A.C.A., formerly with Messrs Barton, Mayhew & Co, Chartered Accountants, of London, is to be ordained priest of the Anglican Church, at the Cathedral Church of St Mary, Chelmsford, on December 22nd; he will continue his ministry in the Parish of St James', Clacton-on-Sea, Essex. Mr Angwin was admitted a member of the Institute in 1949.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

ANNUAL DINNER AND DANCE

The President of The Association of Certified and Corporate Accountants, Mr A. C. S. Meynell, F.A.C.C.A., with Mrs Meynell, presided over a company of 500 members and guests at the annual dinner and dance of the Association held at *Grosvenor House*, Park Lane, London, on December 5th.

Among those present were His Honour Judge Henry Cecil Leon, and Mrs Leon; Mr F. J. Erroll, M.P., Parliamentary Secretary, Board of Trade, and Mrs Erroll; Mr W. H. Lawson, C.B.E., B.A., F.C.A., President,

The Institute of Chartered Accountants in England and Wales; and

Mr G. H. Andrew, C.B. (*Second Secretary, Board of Trade*); Mr W. O. Atkinson, M.B.E., F.I.M.T.A. (*President, The Institute of Municipal Treasurers and Accountants*), and Mrs Atkinson; Mr E. Baldry, F.S.A.A.; Mr W. L. Barrows, F.C.A. (*Vice-President, The Institute of Chartered Accountants in England and Wales*), and Mrs Barrows; Mr R. P. Baulkwill, C.B.E. (*The Public Trustee*); Prof. W. T. Baxter, B.COM., C.A. (*Professor of Accounting, University of London*), and Mrs Baxter; Mr S. J. D. Berger, M.C., F.C.I.S. (*Director and Joint Secretary, The Institute of Cost and Works Accountants*), and Mrs Berger; Mr J. Borsay, F.C.W.A. (*President, The Institute of Cost and Works Accountants*), and Mrs Borsay; Mr L. F. Cheyney, F.I.M.T.A., F.S.A.A. (*Secretary, The Institute of Municipal Treasurers and Accountants*), and Mrs Cheyney; Mr J. Cowen, C.B.E., and Mrs Cowen.

Sir Cecil Crabbe (*Chief Registrar of Friendly Societies*), and Lady Crabbe; Mr I. A. F. Craig, O.B.E., B.A., and Mrs Craig; Mr A. S. H. Dicker, M.B.E., F.C.A. (*Immediate Past President, The Institute of Chartered Accountants in England and Wales*), and Mrs Dicker; Lord Dovercourt and Lady Dovercourt; Mr J. T. Dowling, C.A. (*President, The Institute of Chartered Accountants of Scotland*), and Mrs Dowling; Sir Archibald Forbes, G.B.E. (*Chairman, Iron and Steel Board*), and Lady Forbes; Mr C. G. Garratt-Holden, C.B.E., T.D. (*Secretary, Building Societies Association*), and Mrs Garratt-Holden; Alderman Sir Harold Gillett, M.C., F.C.A.; Sir Robert Gransden, C.B.E. (*Agent in Gt. Britain for the Northern Ireland Government*), and Lady Gransden; Sir Henry Hancock, K.C.B., K.B.E., C.M.G. (*Chairman, Board of Inland Revenue*), and Lady Hancock.

Sir Christopher Hinton, K.B.E., F.R.S. (*Chairman, Central Electricity Generating Board*), and Lady Hinton; Mr J. C. Latham, D.L., F.S.A.A., F.A.C.C.A. (*Director of the Association*), and Mrs Latham; Lord Latham, J.P., F.A.C.C.A. (*Member of Council*), and Lady Latham; Mr L. T. Little (*Editor, 'Accountancy'*), and Mrs Little; Mr F. R. Livock (*Director, British Institute of Management*), and Mrs Livock; Mr T. G. Lund, C.B.E. (*Secretary, The Law Society*), and Mrs Lund; Mr W. Macfarlane Gray, F.A.C.C.A. (*Immediate Past President of the Association*), and Mrs Macfarlane Gray; Mr A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*), and Mrs MacIver; Mr P. J. Mantle, C.M.G. (*Assistant Secretary, Board of Trade*), and Mrs Mantle; Mr E. H. S. Marker, C.B., and Mrs Marker.

Mr E. H. V. McDougall (*Secretary, The Institute of Chartered Accountants of Scotland*), and Mrs McDougall; Mr R. McKinnon Wood (*Chairman, London County Council*), and Mrs McKinnon Wood; Mr C. D. Morley (*Secretary, The Stock Exchange*), and Mrs Morley; Mr E. J. Norman (*Chief Inspector of Taxes*), and Mrs Norman; Mr F. Cameron Osbourn, M.B.E., B.A., LL.B. (*Secretary of the Association*); Mr J. F. Phillips, O.B.E. (*Secretary, Chartered Institute of Secretaries*), and Mrs Phillips; Mr N. A. Royce (*President, Institute of Arbitrators*); Mr J. Ryan, C.B.E., M.C., and Mrs Ryan; Mr S. A. Spofforth (*Vice-President, Institute of Taxation*), and Mrs Spofforth; Mr R. J. W. Stacy, C.B. (*Under-Secretary, Board of Trade*), and Mrs Stacy.

Mr G. Stevens, M.P., and Mrs Stevens; Mr E. G. Tucker (*Controller of Death Duties*); Alderman Sir Frederick Wells, Bt., and Lady Wells; Mr C. R. Willis (*Editor, 'Evening News'*), and Mrs Willis; Mr F. Wilson, O.B.E., J.P. (*Member of Council, President, Sunderland Chamber of Commerce*); Mr C. F. Wood (*President, Institute of Actuaries*), and Mrs Wood; Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., and Lady Yeabsley.

The toast of 'The Guests' was proposed by Mr Meynell, and His Honour Judge Leon, M.C., responded.

Music for dancing which followed was played by George Jay and his Orchestra.

IN PARLIAMENT

The Cheques Act, 1957

Lord SILKIN asked the Government whether they were aware of a growing practice among tradesmen not to give stamped receipts on account of the alleged operation of the Cheques Act.

The MARQUESS OF LANSDOWNE, Lord in Waiting: In general the recipient of a payment is under no obligation to give a receipt if none is demanded, but he must give a stamped receipt for a payment of £2 or more if the payer asks for it. This has always been the position and nothing in the Cheques Act has altered it. But that Act contains a provision to the effect that an unendorsed cheque which appears to have been paid by the banker on whom it is drawn is evidence of the receipt of the sum payable. This, again, has always been the position with endorsed cheques, but the Act now makes it clear that the same thing applies to unendorsed cheques.

Lord SILKIN said the answer would not dispel any of the confusion. It was serious from the point of view of the person who paid his bills and had no real evidence that the money had been received. There were also auditing difficulties. Why was the Chancellor of the Exchequer so complacent about the loss of revenue?

The MARQUESS OF LANSDOWNE said it was not proper to suggest the Chancellor was complacent. There was very considerable benefit to the community as a whole, although it was possible that there might be personal inconveniences on a domestic scale.

Lord LUCAS OF CHILWORTH suggested that the matter could be cleared up if every time a person paid a cheque against an invoice he wrote on the bottom a request for a properly stamped receipt. This would prevent the happenings set out in a very excellent letter in *The Times* this morning¹.

House of Lords, December 10th. (*The Times*, December 11th, 1957.)

Insurance Contributions: Tax Relief

Mr MCKAY asked the Chancellor of the Exchequer how much out of the 6s 9d per week paid by the workman in National Insurance in 1956-57 carried with it income tax relief; and how much tax relief, in total, was given to all contributors in 1956-57 arising out of the contributions.

Mr POWELL: 4s 4·3d, and about £45 million.

Mr MCKAY asked the Chancellor of the Exchequer how much of the total insurance contribution of 9s 5d per week to be paid in 1958 will be allowed income tax relief.

Mr POWELL: 4s 11·2d.

Mr MCKAY asked the Chancellor of the Exchequer

¹ The letter is reproduced on page 708. — Editor.

the amount of contributions paid by the employers under the National Insurance Acts for the year 1956-57; to what extent this item was recognized as a cost of production, thus reducing profits; and what was the loss to the Exchequer, in the shape of income tax, distributed profits tax, and undistributed profits tax.

Mr POWELL: £304 million for the calendar year 1956. Of this, £215 million was paid by employers in the private trading sector. It is estimated that, if the latter amount did not rank as a trading expense for tax purposes, the additional revenue collectible would be £90 million income tax and surtax and £5 million profits tax.

Hansard, Dec. 5th, 1957. Written Answers. Col. 68.

Income Tax

Mr MCKAY asked the Chancellor of the Exchequer how many adult male wage-earners were free of income tax in 1956-57; how many paid only 2s 3d, 4s 9d and 6s 9d in the £ sterling, respectively, as their highest rate of tax; and how many paid tax at 8s 6d in the £ sterling.

Mr POWELL: Separate figures for adult male wage-earners are not available. The figures for taxpayers generally are as follows:

NUMBER OF PERSONS WITH INCOMES ABOVE £180 IN 1956-57				
Highest rate of Income Tax paid				Estimated number
Nil	..	..	..	3,800,000
2s 3d	..	..	..	3,300,000
4s 9d	..	..	..	7,150,000
6s 9d	..	..	..	3,850,000
8s 6d	..	..	..	2,800,000
Total	..	..	..	20,900,000

Hansard, Dec. 5th, 1957. Written Answers. Col. 67.

Superannuation Schemes: Tax Relief

Mr MCKAY asked the Chancellor of the Exchequer the amount of contributions paid by employers to company superannuation schemes in 1956; what was the total loss to the Exchequer due to tax relief to the employees and to the loss of profits arising from such schemes, respectively; and what was the average percentage of tax relief to the employees on the contributions they paid.

Mr POWELL: Complete and up-to-date statistics of employers' contributions to superannuation schemes for their employees are not available. It is estimated that the contributions paid by companies are about £200 million a year attracting tax relief of about £90 million. The total tax relief to employees on their contributions to the same schemes is estimated at about £10 million. The average rate at which employees get tax relief on their contributions is about 2s 6d in the £.

Hansard, Dec. 5th, 1957. Written Answers. Col. 72.

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VALUERS AND ASSESSORS

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THE CHEQUES ACT

We reproduce below a letter which appeared in *The Times* last Tuesday, to which Lord Lucas of Chilworth referred in the House of Lords (see 'In Parliament' in another column):

To the Editor of *The Times*

Sir, —

Unless appropriate action is taken by the Government, it seems clear that Section 3 of the Cheques Act, 1957 (which provides that a 'paid' cheque shall be evidence of receipt by the payee of the sum thereby payable), will cause more trouble than it was presumably designed to avoid, and, incidentally, loss of revenue to the Exchequer as well.

In my own practice, a few weeks' experience of the working of the Act has shown that:

- (a) Most creditors have either ceased to return their accounts on payment, or will not do so unless specifically asked.
- (b) Some creditors are apparently unaware that the law requires a receipt if so requested by the debtor.
- (c) There is a widely held, and quite erroneous, belief that a receipt or acknowledgment of payment of a sum exceeding £2 no longer requires a 2d receipt stamp.

The absence of paid bills and accounts will certainly make the task of accountants and others, whose duty is to prepare and audit accounts, doubly difficult. Furthermore, as in many cases they will have to do extra work to obtain the information needed, the client will no doubt have to pay higher fees.

The probability of loss to the Revenue is obvious, but presumably the draftsman foresaw that he was making a stick for the Chancellor's back, albeit not a heavy one.

Yours faithfully,

Church Street,
Wincanton, Somerset.

DIGBY MELLER.

CENTRAL LONDON DISCUSSION GROUP

The next meeting of the Central London Discussion Group will be held next Wednesday at the London Computer Centre, for a demonstration by Ferranti Ltd.

The annual subscription for the Group, which meets on the third Wednesday of each month is 10s, plus 3s 6d per meeting. Readers who are interested in joining should write to the Hon. Secretary, Mr Stanley Dent, A.C.A., 71 Great Russell Street, WC1. Incorporated accountants will be warmly welcomed.

**THE CHARTERED ACCOUNTANT
STUDENTS' SOCIETY OF LONDON**

The following meetings of the London Students' Society will be held next week:

Wednesday, 5.45 p.m., at London Wall Restaurant: Dinner-debate. The debate will take the form of a Mock Lord Mayor's Banquet.

Friday, 11 p.m., at the Royal Festival Hall: Christmas dance.

**UNION OF CHARTERED ACCOUNTANT
STUDENTS' SOCIETIES**

The annual conference of the Union of Chartered Accountant Students' Societies was held in Birmingham on December 6th. Forty-nine delegates took part, representing twenty-four students' societies, under the chairmanship of Mr J. S. Ellison, M.A., A.C.A., of Liverpool.

The conference opened with prayers and with a welcome from the President of the Birmingham Students' Society, Mr S. V. Lancaster, T.D., J.P., F.C.A.

Introducing the report of the meeting between members of the Council of the Institute and the Liaison Committee of the Union, the Chairman reminded the conference that the Liaison Committee was appointed to present facts and opinions for articulated clerks as a whole. Each year the Council of the Institute invited the Committee to meet the President and some of the members of the Council for free, frank and informal discussion of matters of interest and difficulty affecting articulated clerks. The usefulness of the discussions depended upon their confidential nature and obviously nothing said at that stage by the individual members of the Council could be taken as binding on the Council or its committees. The freedom and confidential nature of the discussions made it impossible to give a full report of the proceedings, but the Council's statement, issued after the matters discussed had been considered by its committees, gave the maximum possible information about the proceedings.

The following subjects were then discussed by the conference:

The use, cost and methods of upkeep of students' societies' libraries; the scope and usefulness of residential courses, their cost and whether principals help to pay; whether recreational activities of students' societies attract students to lecture courses; bye-law candidates' freedom to attend lectures; the apathy of some principals to students' society activities; restrictive finance of students' societies activities by district societies; the booklet *Why not become a Chartered Accountant?*; municipal lecture courses; provincial examination centres; general conditions of training; alternative methods of combining a degree course with articles; publicity for six months' industrial experience during articles; use of films and other visual aids to training; the functions and organization of the Union; articulated clerks and insurance agencies.

The Liaison Committee was reappointed to be available to discuss further with members of the Council matters raised at the conference and any other questions affecting articulated clerks which might usefully be considered.

On the evening of the conference a dinner for the delegates was given by the Birmingham Students' Society, when Mr S. V. Lancaster, T.D., J.P., F.C.A., took the chair. The evening was informal and provided a most valuable opportunity for delegates to exchange experience and suggestions for the improvement of the work of their societies.

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The Recognized
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Chartered Accountants
and Accountancy
throughout the World

THE ACCOUNTANT

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Greetings

To our many friends and
readers the world over, we
extend our good wishes for
a Merry Christmas and a
Happy New Year.

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A CHRISTMAS RESPITE

THERE is no other holiday in the calendar quite like Christmas. Easter, Whitsun and the August Bank Holiday are essentially outdoor occasions of which the acknowledged head of the family naturally takes command. He it is who organizes those idyllic excursions to coast and countryside, planning the route, driving the car, firmly defining the picnic routine and, in general, assigning duties impartially to everyone except himself. In so doing, he is simply exercising what seems to him to be his ordained function as master of the household. But at Christmas, the climax of the holiday year, something goes wrong with this established and, to the male mind, wholly admirable order of things.

The focal points of Christmas are the dining-table and the fireside and in those spheres, and on that occasion, woman acknowledges no superior. To the detached observer, this becomes evident each year around October. While the so-called master is still reflecting on the success of his summer holiday campaign, conducted needless to say with Churchillian panache, his wife, several moves ahead, is already quietly laying down the foundations of the annual miracle of making every Christmas celebration even better than the last. By the time the master of the household awakens to the stark reality that Christmas is next Wednesday and that it is time he did something about it, he is gently informed, in his own wartime idiom, that everything is under control and that all he has to do is to come home sober on Christmas Eve and be prepared to dedicate himself selflessly thereafter for the next five days to the entertainment of the women and children of the household. Even the presents he would no doubt have got round to buying have, he is informed, been bought for him.

This, at least, is the *modus operandi* in most establishments but, being committed to cater for accountants, we feel impelled to raise one question. Do the members of this eminent profession go home on Christmas Eve with the same prospect before them as non-accountant husbands? If they do, their policy no doubt is a calculated one. Pardonably jaded after presiding over the empires of their offices and factories unremittingly since their last vacation, it probably suits them very well graciously to refrain from ruling for a few days. Greatly daring, we agree with this interpretation, but while we do not flatter ourselves that we are widely read by the wives of accountants (unless they are themselves accountants and, therefore, of an especially understanding disposition), we would suggest to the aforesaid rulers of professional and industrial empires that it might be diplomatic not to leave this issue lying around at home over the holiday.

THE OLD LADY OF THREADNEEDLE STREET

THE STORY OF THE BANK OF ENGLAND

by ROY HOPKINS

THE Bank' is a spacious and impressive building in the very hub of the City of London in which is carried on quietly and unobtrusively, the important traditional work of banker to the State. Its services have been rendered for hundreds of years, not only to this nation but to the world at large.

'The Bank' is that venerable institution the Bank of England, more affectionately known at one time, perhaps, as the Old Lady of Threadneedle Street, or, shorter still - The Old Lady - a byword for strength, safety and security.

The foundation of the Bank is owed to two brilliant men: Charles Montagu, Earl of Halifax, a shrewd Englishman, and William Paterson, famous for his Darien expedition, an adventurous Scotsman. Both were ambitious, ingenious and quickwitted; they were an exceptional combination.

Strong Opposition

In the year of the foundation of the Bank, William Paterson wrote an epoch-making pamphlet. Its title was *A brief Account of the Intended Bank of England* and it concluded with a scathing reference to those who were opposed to the formation of such a bank. It pointed out that the happy effects of the undertaking will be but understood 'by the practise thereof, when time shall convince the ignorant' and 'when these conceived Hobgoblins, frightful monsters and horrid spectres, which some are possessed about it, shall vanish, cease and be no more'. This indicates that opposition was fairly strong.

The Bank of England grew up side by side with another feature of our national life, the national debt. In their early stages their history is interwoven, and it would be impossible to refer to one without some mention of the other. The explanation is that when the Bank of England was formed in 1694, its main object was to lend its capital to the hard-pressed Government of William III. The Government borrowed the whole of the £1,200,000 of capital at 8 per cent interest. This was the beginning of the national debt as we know it. The sum lent by the Bank to the Government still appears as one of the principal assets of the Bank in its return, under the heading, 'Government debt £11,015,000'.

This is an interesting survival of the past which can be seen each week in the *London Gazette*.

New Pattern in Borrowing

The formation of the Bank marked an important stage in the evolution of national finance because it set up an entirely new principle. Previously, the King or the Government had borrowed money from individuals very often by the application of a suasion that the victims found difficult to resist, or obtained it by various forms of taxation. The expenses of wars made it necessary to devise new ways of raising funds. Painful experience had shown that the credit of the King or that of 'the persons of his friends', was not always irreproachable security, and borrowing by the Government on a more business-like basis came into being.

For its first half-century it struggled valiantly, leading rather a fitful life. But teething difficulties having been overcome, a fraternity of good London citizens was destined in the ensuing 200 years to make Britain respected for fair dealing and honesty, which perhaps may have accounted for the supposed slur that we were a 'nation of shopkeepers'.

Many difficulties had to be encountered before it could be regarded as a safe depository for funds, but when the storm caused by the fabulous South Sea Bubble had been weathered, its stock appreciated, for not only had the Bank withstood the serious run which depleted its stocks of coin, but it was able to come to the financial support of the Government. In 1745 the danger of the Jacobite rising and the menace of the Young Pretender had to be faced, causing another serious run on the Bank. But confidence returned and it recovered so quickly that it again lent the Government of the day £1 million to suppress the rebellion.

Origin of the Famous Title

Many are the fanciful stories told as to the origin of the name 'Old Lady of Threadneedle Street'. Some would have it that the name comes from the figure of Britannia which is such a conspicuous emblem on the Bank's notes. Others connect it with a mysterious old lady who

haunted the precincts of the Bank. It is possible, however, and indeed probable, that the words were first used in a caricature by Gillray, one of the greatest cartoonists of his day. The State was in urgent need of gold to pay for the Napoleonic wars. Gillray's caricature showed Pitt trying to obtain possession of the Bank's gold from an elderly female. The print was entitled 'Political Ravishment, or the Old Lady of Thread-needle Street in Danger'. A little while before this, Sheridan had referred to the bank as 'an elderly lady who had fallen into bad company'. This, it is thought, gave rise to the now famous and familiar title.

Saving England from Disaster

Lord George Gordon and the Gordon riots in 1780 provided a sensational episode. The rioters made for the repository of the nation's wealth, intending to pillage and set fire to the building. The military were called in to help and from this time until the present day a Bank piquet, mounted nightly by the Brigade of Guards, has watched over the premises.

Seventeen years later there was the threat of Napoleon. Panic set in and a serious run on the Bank followed, cash payments being suspended. The most influential citizens of the capital met and agreed to take the notes of the Bank instead of gold coins, and thus saved the country from disaster.

To make up for the shortage of coin, Spanish dollars captured from the enemy were put into circulation, a small head of the British monarch, George III, being stamped over the head of the Spanish King Ferdinand. A wit of the day broke out with:

'The Bank to make their Spanish dollars
current pass
Stamped the head of a fool on the head
of an ass.'

An ingenious method of killing two birds with one stone, proving not only our superiority over the enemy but that it was good Spanish coin, although it must be said that it was not highly complimentary to the monarchs concerned.

Perilous Seas Again*

The coming of the industrial era brought with it perilous seas which called for all the patience and resourcefulness which the Governor and directors could muster. In opposition to the Duke of Wellington, supporters of the Reform Bill organized visits to the Bank, chanting the slogan 'To defeat the Duke, go to the Bank for gold'.

Although times were politically dangerous the short run was but a minor episode.

Then followed the era of railway speculation, the tragic Black Friday of May 11th, 1866, and the Baring collapse of 1890; but 'Safe as the Bank of England' were no idle words. They were the outcome of confidence, confidence in the conduct of the Bank and confidence in its directors.

The Lady on the Bank-note

The bank-note has ever been with us in modern times, and indeed earlier. Marco Polo gives a description of the notes that were in circulation in China under the Great Kublai Khan. He refers to them as 'paper cut into pieces of money'. It is not surprising, therefore, to find that the bank-note has played a prominent part in the progress of the Bank, the first note being issued in 1694.

A fascinating volume has been mainly devoted to its history.¹ As a frontispiece, the earliest existing printed Bank of England note to bearer is reproduced. This was in 1699 but it cannot, of course, compare with the attractive design of today; the figure of Britannia, however, was there. The Institute of Bankers has a remarkable collection of bank-notes, including many specimens of those beautiful old crisp fivers. In the collection is a note for £500,000, but this would possibly be an inter-departmental voucher of some kind or other.

Deviation from Duty

The usual crop of minor frauds during its long career shall not detract from our tribute. But there is one deviation which should be in this chronicle. This is not so much because of the crime itself, as that it is the only affair in the long story of the Bank which concerns inside organization. This was the Robert Aslett affair. Robert Aslett, a trusted servant, swindled the Bank of over £300,000 by an impudent method of using bills twice over.

Aslett was brought into the Bank and made a member of the staff by a chief cashier, probably the most respectable and famous chief cashier in the annals of the institution. His name was Abraham Newland and his renown as a gifted and faithful servant was celebrated in verse by Charles Dibdin, the famous writer of sea songs. It runs:

'O Abraham Newland
Invincible Abraham Newland
No arguments found, in the world half so sound,
As the logic of Abraham Newland.'

¹ *The Bank of England Note*, by A. D. Mackenzie.

It was the bank-note's reliability to which Dibdin alluded; but Abraham Newland's name appearing on the note received a measure of praise not altogether unmerited. That a worthy man like Newland should have nurtured in his bosom such a rascal as Aslett will always be one of the minor mysteries of the Bank.

Montagu Norman and the Bank

Mr Montagu Norman, later, Lord Norman, one-time Governor, once wrote of those members of the staff gone before in the following words:

'Who, generation after generation, made and kept the Bank alive, who gave it a spirit more lasting than any mortar or method . . .'

The transcendent quality of the spell still lingers with us. As children, our evening's entertainment was to watch the Guards' piquet marching along the Embankment, resplendent in their

brave red coats and frightening bear-skins, on their way to the Bank to guard the nation's gold. Later, growing older, we were taken to see the hatless, jostling junior clerks on a Thursday morning waiting for 12 o'clock to hear of a change in the Bank rate, to see them scampering back to their hard taskmasters – bankers, bill-brokers and merchants – with the exciting news that it was down a half. Then, in our own generation, we were overwhelmed with the eminence of the legendary Governor with Van Dyck beard travelling incognito under the guise of 'Mr Skinner', our one aspiration being that one day we might tread in his footsteps, at least as far as a humble clerkship was concerned.

Now, serene in her own dignity, the Old Lady has come to safe harbourage and it is almost needless to add that she enjoys the complete confidence of all.

CONVERSATION PIECE AT 'THE SHAKESPEARE TAVERN'

by F. C. SHRIMPTON, F.C.A.

A Banker, a Borrower and an Accountant seated, drinking

- | | | |
|-------------|---|---|
| BANKER: | Three thousand ducats!
Saint-seducing gold!
Why this is Midsummer madness! | <i>Merchant of Venice
Romeo and Juliet
Twelfth Night
Hamlet</i> |
| BORROWER: | Though this be madness, yet there is method in't. | |
| BANKER: | I can get no remedy against this consumption of the purse;
borrowing only lingers and lingers it out, but the disease
is incurable. | <i>Henry IV-II</i> |
| ACCOUNTANT: | He that wants money, means and content is without three friends. | <i>As You Like It</i> |
| BORROWER: | My pride fell with my fortunes. | <i>As You Like It</i> |

(Enter, Left-Wing Politician)

- | | | |
|-------------|--|---|
| POLITICIAN: | Well be with you, gentlemen!
I do desire we may be better strangers
Down, down to hell; and say I sent you thither! (<i>Drinks.</i>) | <i>Hamlet
As You Like It
Henry VI-III
Tempest</i> |
| BANKER: | Well, here's my comfort! (<i>Drinks.</i>) | |
| ACCOUNTANT: | I have yet room for six scotches more! (<i>Drinks.</i>) | <i>Antony and Cleopatra</i> |
| BORROWER: | Doomsday is near; die all, die merrily! (<i>Drinks.</i>) | <i>Henry IV-I</i> |
| POLITICIAN: | In this weak piping time of peace
I count myself in nothing else so happy
As a soul remembering my good friends. | <i>Richard III</i> |
| ACCOUNTANT: | Well said; that was laid on with a trowel. | <i>Richard II
As You Like It</i> |
| POLITICIAN: | This blessed plot, this earth, this realm, this England,
England, bound in with the triumphant sea,
Whose rocky shore beats back the envious siege
Of watery Neptune, is now bound in with shame,
With inky blots and rotten parchment bonds;
That England, that was wont to conquer others
Hath made a shameful conquest of itself. | <i>Richard II</i> |

ACCOUNTANT: He draweth out the thread of his verbosity finer than the staple of his argument. (*Aside.*)

POLITICIAN: And so, from hour to hour, we ripe and ripe,
And then, from hour to hour, we rot and rot;
And thereby hangs a tale.

ACCOUNTANT: Here are a few of the unpleasant'st words.

POLITICIAN: Good wine is a good familiar creature if it be well used.
(*Drinks.*)
I will withdraw. (*Exit.*)

ACCOUNTANT: For this relief much thanks.

BORROWER: But trust me gentlemen, I'll prove more true
Than those that have more cunning to be strange.

BANKER: I am the very pink of courtesy,
But in the way of bargain, mark ye me,
I'll cavil on the ninth part of a hair.

ACCOUNTANT: No profit grows where is no pleasure ta'en;
O, how full of briers is this working-day world!

BORROWER: You taught me first to beg; and now methinks
You teach me how a beggar should be answer'd.
There's neither honesty, manhood nor good fellowship
in thee.
Hath this fellow no feeling of his business?

ACCOUNTANT: When sorrows come they come not single spies,
But in battalions.
A wretched soul bruised with adversity,
And how his audit stands, who knows?

BANKER: I thank God I am as honest as any man living.
Out of my lean and low ability, I'll lend you something.
Put money in thy purse.

BORROWER: There's a divinity that shapes our ends
Rough-hew them how we will.
Yet I do fear thy nature;
It is too full o' the milk of human kindness.
Assume a virtue if you have it not
But yet I'll make assurance doubly sure,
And take a bond of fate.
My poverty and not my will consents.

ACCOUNTANT: How use doth breed a habit in a man. (*Aside.*)

BANKER: Here's my hand -

BORROWER: And mine, with my heart in't.
I would 'twere bedtime.

ACCOUNTANT: We burn daylight.
When shall we three meet again?

BANKER: The iron tongue of midnight hath told twelve.

ACCOUNTANT: Methinks I scent the morning air.
Not to be a'bed after midnight is to be up betimes.

BORROWER: To sleep - perchance to dream!

BANKER: Goodnight, goodnight! parting is such sweet sorrow.

ACCOUNTANT: Let's have one other gaudy night!
Shall I take mine ease at mine inn?
Nay, come - let's go together!

Love's Labour Lost

As You Like It
Merchant of Venice

Othello
Romeo and Juliet
Hamlet

Romeo and Juliet
Romeo and Juliet

Henry IV-I
Taming of the Shrew
As You Like It

Merchant of Venice
Henry IV-I
Hamlet

Hamlet
Comedy of Errors
Hamlet
Much Ado About Nothing
Twelfth Night
Othello

Hamlet

Macbeth
Hamlet

Macbeth
Romeo and Juliet
Two Gentlemen of Verona

The Tempest
Henry IV - I
Merry Wives of Windsor
Macbeth
Midsummer Night's Dream
Hamlet
Twelfth Night
Hamlet
Romeo and Juliet
Antony and Cleopatra
Henry IV - I
Hamlet

(*Exeunt*)

BUSINESS TENANCIES – IV

When Landlord 'Intends' to Demolish or Reconstruct

by SPENCER G. MAURICE

THE question of when a landlord 'intends' to demolish or reconstruct within the meaning of Section 30 (1) (f) of the Landlord and Tenant Act, 1954, and when his intention must be formulated, has received much judicial attention, and the judges have frequently referred to the observations of Asquith, L.J., in *Cunliffe v. Goodman* ([1950] 2 K.B. 237; [1950] 1 All E.R. 720), where that learned lord justice, who was considering the meaning of 'intention' and 'intends', not with reference to any Act of Parliament, but merely as ordinary English words in an ordinary context, observed ([1950] 2 K.B. 254; [1950] 1 All E.R. 725) that they signified moving 'out of the zone of contemplation – out of the sphere of the tentative, the provisional and the exploratory – into the valley of decision'.

Material Time

The question of what is the material time for the purposes of Section 30 (1) (f) came before Danckwerts, J., in *Betty's Cafés Ltd v. Phillips Furnishing Stores Ltd* ([1956] 1 W.L.R. 678; [1956] 2 All E.R. 497). The plaintiff company in that case was the tenant of the defendant company, which had acquired in 1954 the remainder of a lease of the premises for 999 years from 1806. The plaintiff applied on June 28th, 1955, for a new tenancy for fourteen years, and on August 15th, 1955, a notice of opposition was sent, purporting to be signed by J., the secretary and a director of the landlord company, the grounds relied on being the intention of the landlord, on the termination of the current tenancy, to reconstruct the premises or a substantial part thereof, and the fact that this could not reasonably be done unless the landlord first obtained possession. J. had obtained from the landlord's architect plans and details of work to be carried out on the termination of the current tenancy, but there was no evidence before the Court that either these proposals or the notice of opposition had ever been adopted or authorized by the landlord. It was not until April 23rd, 1956, when the hearing before Danckwerts, J., had been proceeding for four days, that the board of directors of the landlord company passed resolutions to the effect that in the event of its obtaining possession of the premises the work detailed in the architect's

specification would be carried out and that counsel should be authorized to give an undertaking that in that case the works would be carried out as soon as practicable.

Danckwerts, J., held that the landlord's opposition under Section 30 (1) (f) failed because it had not shown at the material time that it intended on the termination of the tenancy to carry out the work proposed, and he took the material time to be the date of the service of the notice of objection. Since his lordship's decision has since been reversed by the Court of Appeal his reasons for it will not here be considered, except that it should be observed that he relied on the passage in the Master of the Rolls' judgment in *X. L. Fisheries Ltd v. Leeds Corporation* ([1955] 2 Q.B. 636; [1955] 2 All E.R. 875),¹ as indicating that the landlord must at the date of the service of the notice of objection intend to carry out the work of reconstruction.

Ability to Reconstruct

The question of the relevant date did not have to be decided in *Reohorn and Another v. Barry Corporation* ([1956] 1 W.L.R. 845; [1956] 2 All E.R. 742), because in that case the Court of Appeal decided that the landlord had at no time satisfied the requirements of Section 30 (1) (f). In fact, Denning, L.J., took the relevant date to be the date of the hearing, Birkett, L.J., did not expressly consider the point, and Parker, L.J., indicating his disagreement with the view taken by Danckwerts, J., in *Betty's Cafés Ltd v. Phillips Furnishing Stores Ltd*, took it to be the date of the application to the Court. The applicants in *Reohorn v. Barry Corporation* claimed a new tenancy of some six and a half acres of land on Barry Island, which the respondent corporation thought it desirable to develop as part of a comprehensive scheme for the island. The corporation proposed to achieve its objective by letting the land on a building lease to a development company, but although an outline plan of the work proposed existed, there were no detailed plans, the terms of the building lease had not been agreed, and there was no evidence as to the financial arrangements. The judge of the Cardiff and Barry County Court refused the

¹ Quoted in Part II of this article.

tenants' application and they appealed to the Court of Appeal.

Denning, L.J., pointed out that 'intention' to do work connoted an ability to carry it into effect, and that a man could not properly be said to 'intend' to do a work of reconstruction when he had not the means to carry it out. He might *hope* to do so: he would not have the *intention* to do so. The landlord in the present case was exploring the possibility of development, discussing the ways and means, but that was as far as it had got. In his lordship's opinion its ability to do the work, or cause it to be done, was open to question. Accordingly the landlord had not sufficiently proved that 'firm and settled intention, not likely to be changed' of which his lordship had spoken in *Fisher v. Taylors Furnishing Stores Ltd.*

But the Court of Appeal took into account the fact that the land was ripe for development and the proposed work obviously desirable, and the case is important authority on the length of tenancy which the tenant may expect in such a case (if his application succeeds). It will, it seems, inevitably be short. On the facts before them their lordships held that the tenants should be granted a new tenancy of eight months in the first place, and that thereafter it should be determinable by six months' notice on either side, so that once the landlord evinced a firm and settled intention to carry out the work proposed the tenants would have no claim to stay longer.

No Specification Obtained

The question of the relevant date for formulation of the intention to reconstruct was further considered by the Court of Appeal in *Fleet Electrics Ltd v. Jacey Investments Ltd; Wills and Others v. Jacey Investments Ltd* ([1956] 1 W.L.R. 1027; [1956] 3 All E.R. 99). In that case the landlord company was the head lessee of a block of four shops, two of which had been sublet to an associated company: both companies were family companies in that the directors were members of the same family. The directors of the landlord company resolved that the premises should be developed by the conversion of the four shops into one store and that an architect should be directed to prepare the necessary plans, and the landlord served notices terminating the tenancies of the other two shops and stating that the grant of new tenancies would be opposed. The applicants were the tenants of those two shops. A plan for the proposed work of reconstruction was prepared, planning permission was obtained, and so was the consent of the head

lessor, but at the date when the applicants' applications were heard by the judge of the Walsall County Court the landlord had not obtained any specification with regard to the cost of the proposed works. It was stated in evidence that the landlord intended to let the premises to the associated company, but it further appeared that the board of that company had not considered taking a tenancy of the whole of the reconstructed premises, and the judge found that the landlord had not reached such a firm and settled intention as to satisfy the requirements of Section 30 (1) (f). He granted each of the applicants a tenancy for a term of five years.

The Court of Appeal refused to disturb the decision of the judge, and the importance of the appeal lies chiefly in the observations of Lord Evershed, M.R., on the relevant date for the purposes of Section 30 (1) (f), although in this case again it was unnecessary for the Court to express final conclusions on this matter. His lordship said ([1956] 1 W.L.R. 1036; [1956] 3 All E.R. 104):

'... I think that it has been agreed by all the counsel that a landlord who gives notice of opposition, in which he says that on the termination of the tenancy he intends to reconstruct etc., must at any rate prove that, when he gave it, he did in fact so intend. It would also appear (and again counsel agree) that he would have to show that the intention persisted up to the date of the hearing, and had not by that date gone'.

Relevant Date is Date of Hearing

It was not until the appeal in *Betty's Cafés Ltd v. Phillips Furnishing Stores, Ltd* came before it ([1957] 1 Ch. 67; [1957] 1 All E.R. 1), that the Court of Appeal had to determine what is the relevant date. The facts of the case have been given above. The decision of the Court of Appeal was not unanimous, Lord Evershed, M.R., dissenting from the judgments of the majority of the Court, Birkett and Romer, L.J.J., and the cogency of the learned Master of the Rolls' argument, coupled with the views of Danckwerts, J., in the Court below, and of Parker, L.J., in *Reohorn v. Barry Corporation*, referred to above, emphasize the difficulty of construing Section 30 (1) (f). Birkett, L.J., in holding that the relevant date was the date of the hearing, said ([1957] 1 Ch. 84; [1957] 1 All E.R. 8) that two considerations must be kept in mind in considering the problem, namely:

*(a) that there will always be a considerable time between the notice and the hearing, and in that time great changes may take place: (b) the wording

of Section 25 (6) "would oppose an application to the Court"; the wording of Section 26 (6) "he will oppose an application to the Court", and "... such notice shall state on which of the grounds ... the landlord will oppose the application"; Section 30 (1) "may oppose an application", "grounds as may be stated in the landlord's notice"; and the whole of subsection (1) of Section 31.

His lordship also observed that the grounds specified in paragraphs (d), (e) and (f) of Section 30 (1) are subject to special treatment under Section 31 (2). The learned lord justice said that, although a landlord was unlikely to put into his notice any ground on which he had no intention of relying, he might very well, in view of the imperative duty to state his grounds in the notice if he was to be heard by the Court, state a ground about which he had not fully made up his mind at the date of the notice because the decision rested on facts which had still to be made clear; the notice was to be regarded as being in the nature of a pleading, giving notice to the tenant of the case he would have to meet at the hearing, under any of the matters set out in Section 30 (1). Accordingly, his lordship came to the conclusion that Danckwerts, J., was not entitled to come to the decision which he reached without giving full consideration to the resolution passed by the board of the landlord company on the fourth day of the hearing and that the case should go back to him on the footing that the resolution was not too late for it to receive consideration.

Counter-notice a Pleading

Romer, L.J., also concluded that the intention of the statute was that the landlord's counter-notice should be in the nature of a pleading, its function being, as in the case of all pleadings, to prevent the other party to the issue from being taken by surprise when the matter came before the Court. His lordship pointed out that it was clear from Section 31 (1) that the intention must exist at the hearing: it would be *nihil ad rem* for the landlord to establish to the satisfaction of the Court his intention some weeks or months previously to demolish or reconstruct on the termination of the tenancy if in the meantime he had abandoned that intention. He did not think that the interests of tenants required that there should be shown a definite and settled intention on the part of the landlord at the time when the counter-notice was served, while, on the contrary, he found that such a requirement would place a landlord in difficulty, because it would result in a landlord having to come to a fixed and definite

decision long in advance of his being able to obtain possession, when he might not have been able to arrange the necessary finance: and a conditional or provisional intention does not suffice. In his lordship's view, the belatedness of a landlord's intention was highly relevant to its genuineness, but provided that it existed by the time the hearing was closed, not fatal to him in point of time.

Lord Evershed's dissenting judgment turned principally upon his interpretation of the word 'intends' in Section 30 (1) (f), which he found it impossible to equate with 'is ready and able'. His lordship thought that the elaborate provisions of Part II of the Act, which required the exclusive selection of one or more specific grounds by the landlord at the date of the service of his notice, pointed very strongly indeed to the conclusion that he was bound at that stage to assert what his case then was; and that what he must thereafter establish was the truth of the case so asserted. In his lordship's judgment it was neither sensible or logical to require that the landlord should make a proleptic choice of the grounds on which he would rely at some future date, hoping that in the meantime the facts would have occurred which would support his selection. While there is obvious cogency in these arguments the question of what is the relevant date for the purpose of Section 30 (1) (f) is now concluded unless and until opportunity occurs for the point to be considered in the House of Lords.

Resolution of Board Effective

The case has now been further considered by Danckwerts, J. ([1957] 1 W.L.R. 799; [1957] 2 All E.R. 223, note), and his lordship has held that the resolution of the board of directors on April 23rd, 1956, was effective so that the application for a new tenancy failed, albeit he made it clear that he reached his decision most unwillingly. The learned judge was constrained to find that the mere fact that the landlord company was driven to a decision to carry out works because it was clear that otherwise the case would go against it was not necessarily evidence of a lack of genuine intention to carry out those works, and he was influenced in deciding as he did by the fact that counsel acting for the company had been authorized to give an undertaking, the breaking of which involved the possibility of serious consequences for the company and its directors, so that the fact that it had been offered necessarily indicated the required fixity of purpose. (Concluded.)

NORTH AMERICAN COMMENTARY—LXXXV

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(Canada)

Professor of Accounting, McGill University, Montreal

The Journal of Accountancy,
New York, October**Deficiencies of Bank Accounting**

MR Casimir A. Sienkiewicz, president of the Central-Penn National Bank of Philadelphia, says that banks are allowed by the Internal Revenue Service to build up a total reserve equal to three times the average loss ratio in the worst twenty consecutive years since 1927 multiplied by the volume of losses outstanding at the end of the taxable year. In their published statements of condition these reserves are deducted from the gross loans. There is, however, generally no charge made in their earnings statements for loan losses, whether by bad debts written off or additions to the reserves, though the tax relief through the latter is reflected in the statements. Then Mr Sienkiewicz refers to the common practice of writing down land, buildings, and equipment to \$1, with the resulting distortion of earnings through too low a depreciation charge while, at the same time, the tax savings through claiming higher depreciation are reflected in the earnings. Similarly, he says that the tax credit resulting from losses on sales of bonds held as fixed assets may often be added to earnings, though the losses themselves are charged to undivided profits or contingency reserve. Also profits on such sales may be taken into earnings.

Mr Sienkiewicz concludes by recommending the formation of a joint committee of bankers' associations, certified public accountants, and the National Association of Bank Auditors and Comptrollers, to devise ways and means of disseminating the available information as to sound accounting and auditing among the lending banks and borrowers.

The Accountant's 'Comfort Letter'

The accountant, says Mr A. P. L. Crest, C.P.A., of Price Waterhouse & Co, is often asked to furnish a so-called 'comfort letter' for the benefit of underwriters. It asserts that, while the accountant has not made an examination of the financial statements of the interim period since last balance sheet date, in accordance with generally accepted auditing standards, he has made a limited review and discussed with responsible

officers transactions and events since the date of the last audited statements, finding nothing which, in his judgment, would require modification of the unaudited financial statements. Mr Crest warns that this special programme is not an audit and must really be limited. Reference to the books of account should be made only when information comes to the accountant's attention requiring reference for confirmation. Accountants should be concerned, says Mr Crest, with establishing a general agreement as to the scope of the limited review, though only minimum standards could be set.

Computer Installation

Professor Paul Kircher, C.P.A., of the School of Business Administration, University of California, reports on the installation of an I.B.M. 705 computer by the Farmers' Insurance Group. A particularly efficient mechanized system of accounts was already in existence, he emphasizes, when the feasibility of changing to an electronic computer was first studied in 1953. The programming staff was gradually built up over the next two years, with great flexibility of approach. Thus the main file routine was completely rewritten three times, says Professor Kircher, and a fourth development is now contemplated. The monthly rental charge of \$36,100 under the original November 1955 contract has now, early in 1957, become \$37,600, with replacement of three slower printers by a high-speed printer. The system now handles 800,000 transactions and special calculations per month and about 300,000 bills are printed.

Installation costs and tapes are being amortized over five years and by the end of that time it is expected, according to Professor Kircher, that savings will have totalled \$400,000. The present savings are estimated at \$6,000 per month. Professor Kircher says that computer performance has been 100 per cent accurate and that space taken up by the tabulating department has been reduced by 2,500 square feet.

Growth of the Profession in the United States

The total membership of the American Institute of Certified Public Accountants is now reported

as having reached 30,000. Only eleven years ago it was 10,000, says the editorial, and it is anticipated that a membership of 50,000 is less than a decade away.

*The N.A.A. Bulletin (National Association of Accountants),
New York, October*

Statistical Sampling for Inventory

Mr Allan L. Rudell tells of the development and mechanics of the statistical method used in the last annual physical inventory of Minneapolis-Honeywell Regulator Co, of which he is chief accountant. Only one item in five was counted, he says, and the valuation by scientific analysis of the huge heterogeneous work in process inventory was more accurate than that of previous methods. He believes this to be the first time that such a large inventory has been counted in this way and he claims that the statistical method has a greater degree of accuracy and speed than would be possible for a complete physical count. Whereas the company originally tended to think of a complete physical inventory as being a check on the sampling plan, Mr Rudell says they now know that the random sample in reality gives a better inventory figure than a complete count.

An important feature is the segregation of the entire inventory into high-value and low-value lots, the reduced range from highest to lowest value in each group resulting in greater accuracy with a sample of minimum size; 100 per cent of the high value lots are counted but only a 10 per cent sample of the low, scientifically chosen at random with the help of statisticians.

*The Accounting Review,
Menasha, Wisconsin, October*

Accounting and Reporting Standards: 1957 Revision

A 1957 publication now replaces the 1948 revision of a first *Tentative Statement of Accounting Principles affecting Corporate Reports*, issued in 1936 by a committee of the American Accounting Association. An interesting feature is the stand taken in the new publication against the principle of direct or marginal costing, though two members dissented from this majority decision. The statement says 'the cost of a manufactured product is the sum of the acquisition costs reasonably traceable to that product and should include both direct and indirect factors. The omission of any element of manufacturing cost is not acceptable'. The dissenters believe 'that the use of direct costing procedures will in many cases yield

results more useful to investors as well as to management'.

The statement says also that, where significant differences result from accounting provisions allowed for income tax as compared with generally accepted accounting principles, disclosure should be made but the treatment of such differences as prepayments or accruals, as the case may be, is undesirable since 'these items do not present the usual characteristics of assets and liabilities'. One member dissents from this and it is contrary to the Canadian Institute's much disputed recommendation that a tax saving in such circumstances should be reflected in the financial statements as a deferred credit.

*The Canadian Chartered Accountant,
Toronto, October*

The Chartered Accountant as Business Adviser

Relatively few practising chartered accountants in Canada serve on boards of directors or participate in business ventures. Mr Walter L. Gordon, F.C.A., head of the Royal Commission on Canada's economic prospects, attributes this partly to the conflicts of interest in a country with fewer but relatively larger companies than in the United Kingdom, and partly to the influence of the securities and exchange commission and the profession in the United States.

In the field of management services Mr Gordon distinguishes (1) services such as the installation of cost systems and flexible budgets, and advice as to machine accounting, which most practising chartered accountants should know something about; (2) more specialized services such as advice on the use of electronic computers and integrated data processing, and 'operations research', which some chartered accountants have learned to provide without gaining any inherent advantage over others whose training and experience is different; (3) the specialized services of management consulting such as sales forecasting, market research, etc., in which most chartered accountants have little interest or competence. He hopes the day will come when more and more chartered accountants are actively engaged in class one, a fair number will be proficient in class two, and at least a few more firms will be in a position to offer all three classes of service. Mr Gordon does not think it matters much whether the diversification is done through a separate division of the firm or in some kind of association with a separate firm of management consultants.

THE ROMANCE OF BUSINESS

by SIR EDWIN HERBERT, K.B.E., LL.D.
Immediate Past President of The Law Society

WHEN I chose this title I thought I knew what the term 'romance' meant. Let me say at once that it has nothing whatever to do with spicy stories about stern-faced executives and fluffy secretaries. If any of you expected something of that kind and are disappointed, now is the time for you to leave without any hard feelings on either side! Nevertheless, as you know, your profession and mine share, amongst other things, a passion for accuracy and therefore I thought I had better just check with the dictionary and see what the term 'romance' really meant. I find it means a tremendous variety of things, so much so, that I think we had better define the term.

Some of the definitions are not really very helpful. For example, this is the first: 'a generic or collective name for the whole group of languages derived from Latin'. That may be of some help to us lawyers because when we are really pushed into a corner and we do not know what to say to our clients, we take refuge in Latin! That is a reserve which I am sorry to say is not open to you accountants.

I then looked at the second definition, which says: 'A tale in verse, embodying the life and adventures of some hero of chivalry'. That did not seem to me to help very much either, because after all, you cannot get your hero's adventures into your balance sheet and *Chanson de Roland* is not the slightest help either to your profession, or mine for that matter, so far as I can judge, in the discharge of our duties. However, in no way discouraged, I read on, and the third definition I found was: 'an extravagant fiction, invention or story; a wild or wanton exaggeration; a picturesque falsehood'. My mind instantly went back to sundry prospectuses, and even sundry balance sheets and profit and loss accounts I have read in the past! Your business and mine is to see that such companies do not come into existence and therefore I rejected that meaning and went on to the next one, which was: 'a fictitious narrative in prose of which the scene and incidents are very remote from those of ordinary life'. That can be taken to describe a prospectus which did not get to the Old Bailey but just got past a Board of Trade inquiry!

'Imaginative Character or Quality'

However, there are other definitions which are more helpful, and there is one which I think really does describe what I mean and it is this: 'romantic or imaginative character or quality; suggestion of or association with the adventurous'. That gets very near indeed to what I mean by the term 'romance' in this context.

An address given at the President's Meeting of The Chartered Accountant Students' Society of London, held on October 7th, in Guildhall. Sir Harold Gillett was in the chair.

You may very well ask me, 'What has imagination to do with an accountant?' You may tell me that your business is to be quite cold in the matter of figures, to see that they tally, that they are correct, to see that they properly disclose the state of the business and there you stop; but I think if you talk like that you are taking a much too narrow view of what an accountant, or any other professional man for that matter, ought to be. I believe that all professional men ought to use their imagination and that they cannot be really good at their job unless they do.

Of course, you may take the opposite view. You know, no doubt, the story of the Yorkshire family business which was persuaded, with great reluctance, to take an accountant on to their staff. After a time the accountant got into the habit of attending board meetings, and, his confidence raised, he even ventured to express views on policy. That was too much for the old chairman, who said to him: 'Shut thou trap, lad, thou art nought but the ruddy scorer.' I suppose you can be an accountant if you are content just to be scorer, but I do not think that will make you a very good accountant.

The Romantic Element

What do I mean by this use of the word 'imagination' and the romantic element which the use of imagination brings into business and professional life? I think I mean this; you can look at almost any activity of life and it will look extremely ordinary. Some of you have, no doubt, seen the play or read the book *Under Milk Wood*, by Dylan Thomas, the Welsh poet. There he takes a very dull, ordinary Welsh village, a most unromantic looking place, with its ordinary people – the butcher, the baker and the candlestick maker – going about their affairs in the most unromantic way imaginable. What he does is to take the lid off and take you into the minds of those people. You see them getting up in the morning, going through their daily work, spending the evening and going to bed at night. He takes you into their minds and shows you their hopes and fears and thoughts and that whole village becomes alive. It ceases to be dull because the poet's eye and imagination could see the real human life that went on behind that dull and unromantic exterior.

There are always diverse human elements underlying any situation, whether in business or anywhere else. I know we professional men – it applies to my profession certainly as much as yours – are a little bit inclined to mistake the form for the substance. If we are lawyers, we might draft a partnership deed and think of it in isolation as a piece of work to be done. We very often forget the human element behind it – the personal relations of the partners, the

history and growth of the business that the partnership represents, and things of that kind. I think accountants too, with their preoccupation for figures, sometimes forget that the mere existence of the figures is derived from something far deeper, namely, real life, human life, the hopes and fears and thoughts of the people concerned.

Facts Behind the Figures

The deed that the lawyer drafts and the figures which you prepare and audit, you might call, if you like, footprints in the sands of time; but unless you ask who put them there, what made them do it, why they are going to go on doing it, then you are missing, I think, nine-tenths of the true picture and all the romance. I believe myself that the good professional man perfects his skill to the best of his ability but remembers the whole human situation and applies his skill to it. What we want, I suppose, are the facts behind the deeds in my profession and the facts behind the figures in your profession. They are always human, they are always real life and they break through and illuminate the dullest record imaginable, whether they find their record in the memorandum and articles of association or whether they find their record in the balance sheet.

I have heard figures referred to as 'dry bones'. I have heard lawyers' documents referred to as 'dry bones'. So they may be, but shall those dry bones live? The answer is certainly they will live if you will exercise your imagination and see what lies behind them. When you do that you will find that all business is really very romantic.

May I try to illustrate what I mean. I may say I have done a very dangerous thing. I have constructed in my own mind an imaginary balance sheet and profit and loss account. I am encouraged to do that because Sir Harold Gillett and I were once together on a case and at the end he turned to me and said: 'Well, you did most of the accountancy and I did most of the law, and between us we seem to have done pretty well for our clients.' Perhaps he will not mind me constructing this imaginary and fairly typical balance sheet and profit and loss account and try to see what lies behind the figures.

Changing with the Times

The company concerned is a medium-sized company whose business consists of manufacturing and selling household equipment. It has been in existence for a great many years, first of all as an individual business, then as a partnership, then as a private company and now as a public company. With one or two exceptions, to which I will refer, there is nothing extraordinary about the accounts at all - there are no unusual entries, with the exception of those I will mention in a moment, either in the balance sheet or profit and loss account.

I said it is old-established; it has also kept up to date with the times. It has two factories in different places, each employing about 500 hands. It has been

fairly successful in keeping abreast of new methods, new materials and new finishes. These things together make its wares both cheap and attractive. The founder of the business is pretty old now but is still chairman. Some of the other directors wish he would go, but he will not. He has two sons on the board, both of whom are also employed as executives in the business, one as managing director and the other as sales director. He has one independent business friend on the board, who, in fact, was recommended to him by the bank manager. That is how to get on boards, I may tell you - keep friendly with your bank manager. The accountant on the board is far from being a 'ruddy scorer' and two heads of departments are also on the board, so it is quite a normal sort of company whose books any of you might be called upon to audit today.

The Profit and Loss Account

Let us look at the profit and loss account. On the top right-hand side the first item is receipts from trading - trading receipts, so many pounds. What could be less romantic than that? Actually, what could be more romantic? This business could not exist unless it succeeded in making its wares attractive and supplying certain human needs. If it were not for the procession of life and the changing tastes and needs of successive generations, you would not see any figure at the top right corner of the profit and loss account at all. Even an unromantic figure like that can open a little window into the human reality behind the business.

This company does not only sell but it also manufactures, and in its factories you will find a great variety of people. You will probably find in each of them a works manager, whose driving force is pride in his work and pride in the skill with which he utilizes the resources of the factory. He could probably get a lot more money elsewhere but he prefers to stay where he has his own job and can see the results of his labour in tangible form.

Then, of course, there are all the hands at the factory. They are a mixed bag. Some of them are old craftsmen who have grown up in the business, remembering the chairman when it was a tiny little business and they were all working together. Some of them will be just ordinary routine men, there for the estimable purpose of earning a living. A lot of them will be girls who are doing mechanical jobs which give them plenty of time to think about their boy-friends while they are working, as well as at other times. There will certainly be a trade union organizer, and there may be a shop steward or two who think it is a field in which they can exercise their talents. They are all there for different motives and different purposes, but they are all there and ultimately they produce the articles that are sold.

If you look at another section of the profit and loss account you will see that the company spends a great deal on research. That is why they have been able to keep up to date. They have adapted old

processes and devised new ones. They have a very good research department, which is very expensive and shows as a considerable item on the other side of the profit and loss account.

If the management is good, there will be quite a few in that research department. Their view of the business is utterly different from that of the other people, and yet it is their work, no less than the work of the salesmen and no less than the work of the factory managers and hands, that lies behind the figures in the profit and loss account.

Story of the Reserves

Can you learn anything romantic from the balance sheet? I am going to ask you, first of all, to look at the debit side, the left-hand side, and see what you can learn from the figures. First, you will see that this company has built up very substantial reserves and you will probably be asked to advise whether they are adequate or not. Even in a cold-blooded business like that, if you are doing your job properly, there is a romantic story behind the reserves, particularly how they began.

When the old man started the business he got on fairly well and the children came along and said: 'Dad, you are getting very prosperous, why can't we branch out a bit; why can't we live like such-and-such family live?' And the old man, a firm old character, said: 'Nothing of the sort, my boy. All I can save is going back into the business. That is where it is going. I do not want to have to get outside finance. I am not going to spend the money on ourselves - we are going to put it back into the business.' You will find that that is probably how the reserve fund started - by personal self-sacrifice and self-denial on the part of the founder of the business.

Share Issues

There is just one unusual item which I have put into my balance sheet. There are no less than five classes of preference shares, small total amounts in issue and at all kinds of rates of interest. How did they get there? Each one marks a new crisis in the history of the business, when the old man had to go round his family and friends and ask them to put up a little money to carry him through.

There is an issue of debentures which you will find on the left-hand side of the balance sheet. That issue was made before any issue of ordinary shares was made; it was the last attempt by the old man to keep control of the ordinary capital and, therefore, control of the business in his own hands. Everybody said to him: 'You must do something about getting outside money into this business if we are going to expand.' He stuck out against the issue of ordinary shares but he did issue some debentures. Then we find there are some ordinary shares held by the public. What does that tell you? It tells you this - the old man was ultimately persuaded that he must do something about death duties and therefore the

ordinary shares came on to the public market in that way, or some of them.

There is also a bank overdraft. There always has been an overdraft. That is merely carrying on an ancient friendship between the bank manager and the chairman, and believe me, although banks have to look at the balance sheet and have to look at the purely financial aspect, the day has not passed when they will not also look at the character and the antecedents of those running the business. To be on terms of mutual respect with your bank manager is the right thing to do. The bank manager was a great help to this particular company. As I told you, he got an outside director on the board at the time when there was a bit of a crisis. The truth of the matter was that the bank manager had to go to the head office in London and say: 'Can I extend this overdraft, provided I get an outside business man to go on the board?' That is how that director came on the board.

Cross-section of Life

What is the reality of this business? I think you will agree that it is more than the legal documents which constitute it. It is more than the figures which you read in the accounts. You might almost say it is as good as a play and so it is, because if you go round to each of the types of person I have referred to and ask them what the company is, they will all tell you something different.

The works manager will say, 'It is a place where I exercise my skill', and so will the cost accountant. The scientist will say, 'It is a place which has given me a beautiful laboratory in which to find out things which I could not afford to find out about in other ways'. The shareholders will tell you: 'It is the producer of a financial return', and so on. If you go to the chairman he will tell you it is the apple of his eye and the outward and visible symbol of the whole of his life's work. Everyone will tell you something different about the company, but it will be a human view of the real truth of the company. It is a slice of life; it is a cross-section, if you like, of life, and it is your business, I believe, to exercise your imagination, to see the things which lie behind the figures which come into your hands, and then you will certainly see the romance.

I believe that imagination is that which gives things life; it keeps you in touch with reality; it enables you to see the situation steadily and in whole, and enables you to keep a sense of proportion and see your own part in all this activity properly as part of the whole. I can say this. Of all the great men of your profession I have met - and I have been lucky enough to meet many of them - there has never been one who has been a 'ruddy scorer'. They have never lost their fascinated interest in life, the life behind the figures with which they deal. I would say they are realists because they are in touch always with the human facts, and they are such supremely good accountants because they have never lost sight of the gleam of what I have been referring to as 'Romance in business'.

A CHRISTMAS WHO'S WHO

The numerical order of the answers (given on another page) is also the alphabetical order.

1. Who was Charlie Chaplin's leading lady in his latest film, 'The King in New York'?
 2. Who was the only Englishman ever to become Pope?
 3. What schoolmaster and scholar of distinction was executed in 1759 for the murder of a certain Daniel Clerk?
 4. What English novelist lived at Chawton, a village near Winchester?
 5. What Utilitarian writer and reformer designed a circular prison with the cells grouped round the warders' well in the centre?
 6. Who was the first woman in this country to attain the rank of Cabinet minister?
 7. What British army officer had his name perpetuated, not for his military exploits but for events connected with his subsequent career as an estate manager in Ireland?
 8. Who was the last British subject to win the world's heavyweight boxing championship?
 9. What poet had a dog called 'Bosun'?
 10. Of what Roman emperor was Messalina the wife?
- * * *
11. What poet fell under the influence of Florence Nightingale during her latterday zeal for hospital reform?
 12. What French actor is always associated with the role of Cyrano de Bergerac in Rostand's play of that name?
 13. Who wrote *John Halifax, Gentleman*?
 14. What Frenchman is generally regarded as the founder of modern philosophy?
 15. Who remarked to Queen Victoria, 'Your Majesty is the head of the literary profession'?
 16. Who composed the opera *Don Pasquale*?
 17. What Russian novelist, sentenced to death for alleged revolutionary activities, was reprieved at the last moment and sent to Siberia?
 18. Who discovered and first preached the doctrine of Christian Science?
 19. What English king reigned from 1461-1483?
 20. Who in exile was miraculously fed by ravens during a drought?
- * * *
21. What empress of France lived for a time in Chislehurst, Kent?
 22. What English writer of Italian origin is regarded as the standard translator of the French essayist Montaigne?
 23. Who composed the opera *Martha*, revived recently at Sadler's Wells?
 24. Who was responsible for the choreography of the ballet *Petrouchka*?
 25. Who was Lord Kilmuir, the Lord Chancellor, before he was raised to the peerage?
 26. Who was the father of 'the noble Duke of York' who 'had ten thousand men'?
 27. Who was, according to Lord Randolph Churchill, 'an old man in a hurry'?
 28. What English statesman and financier, a vigorous supporter of Marlborough during his absence at the wars, became head of the Government in 1702?
 29. Who founded the Royal Exchange in the City of London?
 30. What American, an originator of the 'hard-boiled' detective novel, wrote in successive years *The Maltese Falcon*, *The Glass Key* and *The Thin Man*?
- * * *
31. The tercentenary of the death of a famous physician was commemorated on June 3rd this year. Who was he?
 32. What artist executed a series of macabre woodcuts called *The Dance of Death*?
 33. Who wrote a novel, the characters in which include a dancing girl, Esmeralda, and a goat, Capriella?
 34. What Spanish novelist wrote *Blood and Sand* and *The Four Horsemen of the Apocalypse*?
 35. What was the pen-name of Richard Harris Barham?
 36. What English actor began life as John Henry Brodribb?
 37. Who was the first Marquess of Reading before he was raised to the peerage?
 38. Who is the present British ambassador to France?
 39. What English physician discovered and introduced the practice of vaccination?
 40. Of which Master of Balliol was it said, 'What I don't know isn't knowledge'?
- * * *
41. Who was Lord Chancellor in the last Labour Government?
 42. Who said on his deathbed that he already seemed to feel the flowers growing over him?

43. Who composed the score for the musical comedy *Show Boat*?
 44. What writer lived for more than thirty years of this century at 'Bateman's,' Burwash, Sussex?
 45. Who was eulogized by Pope as 'the Man of Ross'?
 46. Whom did Walt Whitman address as 'My Captain! My Captain!'?
 47. Who is the present President of Portugal?
 48. 'O what a marriage of beauty and brains, When the fair . . . wed John Maynard Keynes.'
- * * *
49. Who wrote the hymn 'Abide with Me'?
 50. Who knew 'no spectacle so ridiculous as the British public in one of its periodical fits of morality'?

Who was the bride?

- * * *
51. Who was the Soviet ambassador to this country during the critical years 1932-1943?
 52. What modern American author wrote comic-free verse about a cockroach with the soul of a poet?
 53. Who became the second husband of Mrs John Ruskin?
 54. Who addressed a sonnet to Cyriack Skinner?
 55. Who was called 'the King of Bath'?
 56. Whose quarrel with Charles Kingsley prompted him to write a celebrated religious testament?
 57. What prime minister of George III pursued a foreign policy which is said to have lost Great Britain her American colonies?
 58. Who wrote the popular song 'Keep The Home Fires Burning'?
 59. Who is the Chief Cashier of the Bank of England?
 60. Who wrote *The Road to Wigan Pier*?

* * *

61. Who wrote:
'We are the music-makers
And we are the dreamers of dreams'?
62. What was the pen-name of Marie Louise de la Ramée?
63. Who was the second husband of Mrs Kitty O'Shea?
64. What French mathematician and philosopher was associated with the Jansenist monastery of Port Royal?
65. What singer was celebrated for her rendering of 'Home Sweet Home'?
66. Who is the present chairman of the United Kingdom Atomic Energy Authority?

67. Who collaborated with Thomas Rowlandson in producing a series of coloured views called 'The Microcosm of London'?
68. Who composed *A Children's Overture*?
69. What English eighteenth-century actor was noted for his great success in the part of Falstaff?
70. What Norwegian army officer and politician in the Second World War was hanged for high treason and gave his surname as a new word to the vocabulary?

* * *

71. What French society leader numbered among her friends Madame de Stael and Chateaubriand, was painted reclining on her sofa by Jacques Louis David and died of cholera in 1849?
72. What American patriot rode by night to Lexington and Concord to warn the inhabitants of the approach of the British troops and had his feat commemorated in a poem by Longfellow?
73. Who painted 'The Strawberry Girl'?
74. Who was the chief owner and first editor of *The New Yorker*?
75. Who composed 'La Marseillaise'?
76. Who is the wife of Harold Nicolson, the diplomat, author and critic?
77. What scholar and medical missionary is associated with Lambaréné in French Equatorial Africa?
78. Who eloped with Miss Harriet Westbrook to Edinburgh where they were married?
79. What political leader is regarded as the father of the Chinese Republic and founder of the Kuomintang?
80. Whom did Dr Fisher succeed as Archbishop of Canterbury?

* * *

81. For whom did Bernard Shaw write the part of Cicely Waynflete in *Captain Brassbound's Conversion*?
82. What novelist sometimes used the pseudonym, Charles James Yellowplush?
83. What British scientist won the Nobel prize for chemistry this year?
84. Who painted 'The Fighting Temeraire'?
85. Who wrote the Norwegian novel *Kristin Lavransdatter*?
86. Who translated Rabelais with panache, fought the Covenanters and is said to have died from the effects of a fit of joyful laughter on hearing the news of the Restoration?

87. What saint, with 11,000 other virgins, is supposed to have been killed by an army of Huns near Cologne?
88. What artist, noted for his predilection for gigantic canvases, rich colouring and subjects depicting pomp and splendour, painted 'The Marriage at Cana'?
89. What American statesman gave his name to the Act introducing prohibition to America in 1919?
90. What composer became Liszt's son-in-law?
* * *
91. Who wrote *Mr Perrin and Mr Trail*?
92. What famous divine was born at Epworth Rectory?
93. Who is the Astronomer Royal?
94. To which poet was J. K. Stephen referring when he wrote:
"Two voices are there: one is of the deep;
And one is of an old half-witted sheep?"
95. What sixteenth-century Spanish Jesuit missionary was known as 'the Apostle of the Indies'?
96. What Persian king, in his attempt to conquer Greece, was resisted at Thermopylae and routed at Salamis?
97. What modern poet wrote:
"The years like great black oxen tread the world . . .
And I am broken by their passing feet"?
98. Who was a carpenter, a preacher, an apostle, a missionary and Governor of the state of Utah, U.S.A., and died in 1877, leaving seventeen wives?
99. What famous American show producer married, in succession, his leading ladies, Anna Held and Billie Burke?
100. What French novelist was imprisoned for writing an article in the Paris newspaper *Aurore* about the Dreyfus case?

Weekly Notes

Honi soit . . . ?

Some human as well as financial statistics are contained in Part 2, just issued, of the 1956 report of the Chief Registrar of Friendly Societies.¹ The fall in membership of societies without branches which has been going on continuously since 1945 was arrested last year when the total rose slightly to 4,780,000. The Chief Registrar comments, however, that it would be premature to assume that this is an indication that the friendly society movement as a whole has adapted itself to the climate of the Welfare State. The latest membership figures for societies with branches (the 'Orders') relate to 1955 and, at 1,593,000, showed a decrease of 61,000 as compared with 1954.

The income of friendly societies without branches for 1956 was £22 million or £1 million more than for 1955, but expenditure rose by the same sum to £17 million. Their total funds at the year end amounted to £165 million. The funds of the Orders at the end of 1955 were £66 million. Particulars of three cases of defalcation are given in the report and, in view of the considerable sums of money handled by officials and employees, it is not surprising that the Chief Registrar stresses that societies should assure themselves of the competence of the persons they appoint as auditors.

Among the seven centenarian societies dissolved during the year was a church Sunday school which had a rule that if any girl member who had 'not been guilty of any gross or immoral conduct' got married, she was entitled at the discretion of the committee

to receive 'as a reward for good conduct' an eight-day clock. The rule had remained unaltered since the society's foundation in 1842 and the final return showed a total expenditure of £10 for 'benefits of marriage' which represented the presentation of two clocks.

Transfer of Assets Abroad

An interesting point of construction of Section 412 of the Income Tax Act, 1952, was decided recently in the High Court.¹ That section, broadly speaking, imposes income tax on income of persons resident abroad where there has been a transfer of assets and some individual ordinarily resident in the United Kingdom has 'power to enjoy' the income in any of the many ways set out in the section. Subsection (2) imposes tax on the individual in respect of the foreign income if he receives or is entitled to any capital sum 'the payment whereof is in any way connected with the transfer or any associated operation'.

In the case referred to, the appellant, who was ordinarily resident in the United Kingdom, had set up a company in the Republic of Ireland in 1947, and in 1948 he sold £35,000 worth of securities to it; shares being issued to him in satisfaction of the company's indebtedness. Those shares he settled on the trusts of a settlement governed by the law of Ireland. By 1951 the company had about £81,000 worth of investments and owed £33,000 to its bank on overdraft. In 1952, the appellant made an interest-free, unsecured loan of £12,000 to the company, paying it to the company's bank. Then in March 1954 he

¹ H.M.S.O., 3s net.

¹ *Fynn v. C.I.R.* (*The Financial Times*, December 12th, 1957).

released the company from its indebtedness. He was assessed to income tax for 1951-52 and 1952-53 under Section 412 on the ground that the £12,000 was a capital sum to which he had been entitled, under subsection (2).

Dismissing the appeal, the Special Commissioners held that the right to receive the £12,000 was 'connected' with the transfer or with an associated operation. Reversing this decision, Upjohn, J., said he could see no such relation. He ordered the tax to be repaid to the appellant.

Cutting Prices

The efforts of the Chancellor of the Exchequer to get the co-operation of industry in a concerted drive to reduce prices as a means of damping-down wage demands has not had an enthusiastic reception from the National Union of Manufacturers. In the December issue of its journal, the N.U.M. says that prices can be stabilized, let alone reduced, only if costs are also stabilized; the implication being that there must be a gesture in the direction of stability from the side of wages. This may be true, but it is doubtful if this is the most opportune moment in which to say it. To some unions such a statement may savour of a challenge at a time when there is a great need to reduce the temperature in management/labour relations.

The Government are naturally keen to take advantage of the decline in world commodity prices and to have the benefit of lower costs passed right through the industrial machine to the ultimate consumer and so stabilize and if possible reduce the cost of living. They hope that if there is some prospect of this happening, they may be able to counsel patience to organized labour. There is just a chance that they will succeed if the lower prices can be passed on quickly enough. It is a race against time.

National Product in 1956

The record figure of £18,117 million for the gross national product was achieved in 1956. It was also a record year in other respects. Personal incomes and total expenditure reached their highest level and so did expenditure on the social services. These and other figures are given in the *Annual Abstract of Statistics* published for the Central Statistical Office by the Stationery Office, price £1 1s.

One of the interesting features of the year was that despite its prosperity there were only two million working days lost on strikes, the fewest recorded since 1952. Had it not been for the strikes in the spring in the shipbuilding industry, 1957 would also have been a good year from the point of view of industrial strife. There is reason for thinking, too, that when the figures are available the gross national product in 1957 will also have been slightly higher than 1956. He would be a bold prophet who would say that the national product and the figures for industrial strikes are likely to be as favourable in 1958.

Sterling Area under Fire

In view of the recurring crises in the balance of payments position of this country and the large ebb and flow in the gold and dollar reserves, it is not surprising that a school of thought has developed which favours the abandonment, in varying degrees, of the sterling area in its present form. There have been a number of calculations of late which have purported to show that the foreign exchange earnings accruing in this country from its position as banker in the sterling area are not worth the strain they put upon the economy. A figure as low as £5 million a year has been mentioned as the net receipts. Such a figure has been quickly answered by much higher estimates and if one thing is clear it is that nobody knows as yet the right figure.

The latest contribution to the argument comes from Mr R. R. Nield in the *District Bank Review*. In the current issue of the review Mr Nield argues for the imposition of controls on the use of the United Kingdom as a source of capital funds for members of the sterling area. He would use these as a means of strengthening London's position as an international banker. He thinks that the outflow of capital in recent years has swallowed up the whole of the surplus on this country's current account. In other words, the United Kingdom has accepted the dangerous position of borrowing short while ending long.

These arguments have something in their favour and they look particularly attractive when the net gain in millions of pounds appears to be small. On the other hand, the brutal fact has to be faced that whereas there might be a good deal to say for limiting London's role as an international banker and as a source of credit, no quick and clean break with the past would be possible without doing immediate and irreparable damage to confidence in the pound. This country has substantial overseas debts to pay off which would almost certainly be called in if sterling were no longer negotiable as it is at present. In addition, such a manoeuvre might well appear to be a foreign adventure which this country was carrying out instead of trying to put its internal economy in order.

A Loan for France

There has been a good deal of discussion of the kind of terms which the French Government could get for a loan from the International Monetary Fund. It may not be easy to find a compromise between what France can accept in the way of terms and what the Fund will demand. The only two precedents which can be called up are the United Kingdom and West Germany. Earlier this year the United Kingdom began to draw upon its I.M.F. quota more or less at will. Seven years ago the Germans also had temporary help but had to make monthly reports on the progress achieved during the loan's currency. It is more than likely that the French, who are at present in sensitive mood, will expect to get conditions nearer those of the United Kingdom than the ones accepted by a

defeated Germany for its programme of rehabilitation after the stabilization of its currency.

Everyone concerned with the negotiations of the loan realizes that France's external position is serious and that the franc cannot be allowed to slide if the economic stability of Western Europe (now typified by the European Common Market coming into operation in 1958 with a programme of tariff cuts early in 1959) is to be preserved. Equally it is useless attaching heavy conditions to a loan which French politicians will have to accept in desperation. The only way out is for a stern period of restraint in expenditure by the French public and something approaching a draconian budget. This last is asking a great deal of the French, but there are signs that the Government, if it lasts, will hold the Budget deficit at a target figure of £512 million. This is at least a beginning.

Preliminary Review of the F.T.A.

The ministerial committee on the free trade area has broken up at Paris until January 15th after a two-day meeting. It was said that the Ministers had reached certain agreements in principle. It is reported that the Ministers have agreed that there should be no 'provisional period' for the free trade area such as there is for the common market. This would enable the two schemes to come into operation at the same time - which follows the British point of view rather than the French. The French show every indication of preferring the idea of a complete European common market to cover the seventeen nations rather than six in the European

common market and the rest in the free trade area. Nevertheless, they have so far shown a reasonable spirit of accommodation.

Between now and the January meeting, the British will circulate a paper on agriculture and a first step is to be made in drafting a document on the harmonization of wages and social charges.

Lower U.S. Business Spending

The prophets of lower economic activity in the United States have had a successful week. The latest news from America is of reduced retail sales and sluggish Christmas shopping. There is time at least for this to pick up before Christmas Eve, but it has to be remembered that retail sales as a whole have been exceedingly buoyant since last summer when capital goods expenditure fell off and that it has been the public's spending which has prevented an American recession from going further. So far as capital goods are concerned, the rate of activity in the steel industry has now reached a low level which can be generally regarded as serious. The official index of steel activity has fallen through 70 per cent of rated capacity.

The latest forecast of spending on capital equipment in the United States covers the first quarter of 1958. A drop of 5 per cent is expected compared with the same period of 1957. It is thought that 1957 will end up with a level of capital spending about 6 per cent above that of the year before, but this increase represents a slower rate of expansion than 1956 recorded over 1955. In 1956 there was a 22 per cent gain over the year before.

Reviews

Lectures on Economic Principles, Vol. I

by Sir DENNIS ROBERTSON

(Staples Press Ltd, London. 16s net.)

It would be an impertinence to review in the accepted sense of the term within the space available here this work of Sir Dennis Robertson, the doyen of professional economists. It is sufficient to say that those who have enjoyed his writings in the past will already have acquired his new collection of essays.

The volume consists of lectures on economic theory given to second-year honours students at Cambridge. Some acquaintance with economic theory is needed, if only to appreciate the simplicity of writing and clarity of thought of the author. The reader will understand what this means when he turns to some of the references given by Sir Dennis to the learned journals.

This book should be an essential purchase of any student working for the external B.Sc.(Econ.); after reading it, he will, like this reviewer, anxiously await the next two volumes in this series promised by the publishers.

A Guide to Management Accounting

by H. W. BROAD, A.S.A.A., A.C.W.A., and
K. S. CARMICHAEL, A.C.A.

(H.F.L. (Publishers) Ltd, London. 18s net.)

One of the primary aims of this most welcome publication is stated to be the preparation of students for the management accountancy syllabus of the various professional bodies; its authors have, however, succeeded additionally in providing a vade-mecum for all industrial accountants. This result arises from an abviously intimate experience of the problems of the accountant in industry. Who but an industrial accountant could write with such feeling:

'The accountant will be called upon to provide information . . . without delay and regardless of the difficulties caused to the accounting department.'

or again (page 3):

'Before proposing any changes he must be prepared for opposition. His colleagues may accuse him of trying to increase his own importance in the business.'

Such flashes of personal commentary occur throughout the book, giving additional vividness to a work

already written in the most concise and lively style.

After a brief introduction, the authors deal with the establishment of budgets, the detailed day-by-day control against budget—often in terms of physical facts such as labour efficiency and material usage—and the periodical expression in financial terms of budget variances. The chapter on measurement and appreciation gives a series of valuable tabulations showing how particular causes of variance can be identified from the various control reports dealt with in a previous chapter. Nevertheless, for the student to follow intelligently the complete sequence of forecast, control and measurement of any selected activity, he will need to make constant cross-reference between the different chapters. This method of dealing with the subject is probably more enlightening when the reader has gained familiarity with it, but combined with the succinctness of expression already noted, it does mean that from the student, the book demands very close study, and that even for the qualified accountant it does not provide light reading.

Some tabular presentation might have been introduced to show the common source of the payroll, the labour analysis and the labour utilization report; or the connection between stock records, the material analysis and spoilage or scrap reports. Even some extension of the narrative might have served this purpose, this would admittedly involve the danger of transforming a book on management accounting into a textbook on costing.

Even the short-term profit and loss account and balance sheet are given scant treatment; the former appearing once, coyly, in a section headed 'Master budget'; and the latter being exemplified only as a 'Movement of funds statement'. One might think that the fairly common bar chart presentation of the balance sheet would have deserved a passing mention.

On the general subject of the informational requirements of top-management, a narrative or tabular summary would again have added to the text. Sufficient senior executives have now committed themselves to print for some common pattern to be discernible, irrespective of the costing system, or the precise form of presentation in use.

Under the heading of 'Office organization', the authors give a number of interesting case studies. Their general commentary, however, does not make clear the desirability of studying the distances travelled by a document in the course of its life, or the delays to which it may be subject in various hands.

In their preface, the authors ask for constructive suggestions. It is hoped that the above comments will be read in that light, and not as detracting from the value of their work.

This book meets an urgent need and meets it with traditional professional thoroughness which may well qualify it for inclusion among the classics of accounting literature.

The General Principles of English Law

by W. F. FRANK, LL.B., B.COM., M.SC.(ECON.), DR. JUR.
(George G. Harrap & Co Ltd, London. 10s 6d net.)

The author emphasizes that this book, unlike most of the existing ones on the subject, is not intended for university students or for law students in general. It has been written to help students preparing for examinations of various professional bodies.

Footnotes have been avoided and the detailed case references have been limited to the 'Table of Cases'. There is a useful glossary of legal terms and a selected list of examination questions. In the main text the author has set out the principles in non-technical language in a way which should make it more palatable for the student. Altogether this is a worthy contribution to a subject somewhat neglected by textbook writers.

The Conditions of Economic Progress

Third Edition

by COLIN CLARK, M.A.

(Macmillan & Co Ltd, London. 70s net.)

The content of this book of over 700 pages is a statistical exercise on the grand scale by a statistician whose pre-war writings on measuring the national income and product brought him an international reputation.

The book's object is to provide a measure of economic progress in most of the countries of the world, defined in terms of the *per capita* national income. There is a detailed discussion of source material and comments on the reliability of the available statistical data. There are tables and figures enough even for the most hardened accountant.

This is certainly a remarkable book. Its scope is as great as the author's knowledge of source material is extensive. The methods adopted to facilitate the compilation of comparable series are especially interesting. Just as Mr Clark pioneered the international study of the national income now prepared annually by most advanced countries, it is to be hoped that this work will encourage further study in the field of international comparison of national income data.

Public Authorities' Stores, Small Plant and Tools Accounting and Control

(The Institute of Municipal Treasurers and Accountants, London. 15s post free.)

This research study was initiated by The Institute of Municipal Treasurers and Accountants because it was felt that a critical survey of the methods of accounting and control of stores, small plant and tools used by local authorities, gas and electricity boards, hospital boards and management committees would provide a needed and valuable source of reference. This research group have stepped into a mundane sector of financial administration, and the published result of their work testifies to a well-maintained sense of

proportion during which they have created interest and realism in the subject.

The narrative comprises a hundred pages and is often nourished with examples of *pro-forma* rulings and specimens of an accounting and administrative nature. The study has been based on a questionnaire which was sent to eighty-three public authorities and this is reproduced in the second of two appendices embracing a further sixteen pages. The first appendix is an adequate description of a mechanized stores accounting system in a large town. The questions in Appendix II could well form the basis of a useful internal audit programme for practitioners in both municipal and commercial concerns.

One is pleased to see that the team's conclusions emphasize the need for a more positive approach to stores accounting and control. Much of the effort expended in the former aspect has already been reduced by the adoption of machine and electronic devices. The resultant savings in administrative costs should be the spur to encourage more positive forms of physical control of stock checks, stores movements and buying procedure for which the most elaborate book-keeping is no substitute. After all, the maintenance of stores demands a large investment of money from the fund of available working capital.

The compilers have presented a remarkable array of facts and views in easily assimilable form. The book is both mildly critical (the extent of recording quantities and values in the stores ledger) and pleasingly constructive (underlining the need and the means of obtaining economical stores administration, and for integrity in the staff engaged on stores control).

This little volume is well recommended as a survey into this unexciting but important subject. It is a book for specialists but compared with most examples of this class, it is both outstandingly practical and easily readable.

Jones's Studies in Practical Banking

Fourth Edition

by J. MILNES HOLDEN, LL.B., PH.D., A.I.B., Barrister-at-Law.

(Sir Isaac Pitman & Sons Ltd, London. 25s net.)

This book occupies a remarkable place in banking studies. The late Mr R. W. Jones, of the Westminster Bank, delivered the Gilbert Lectures in 1932-35, and the *Studies in Practical Banking* were the substance of his lectures, which were on such subjects as the practice of bankers in relation to certain types of account, to certain types of security and to the payment and collection of cheques. Ever since its first appearance it has been the unchallenged companion to the more formal textbooks. The author prepared the second and third editions, and now following his death, the book has been discreetly edited by Dr Holden. Changes have been kept to a minimum: the original material, comprehensive, urbane and conversational in style, has stood the test of time extraordinarily well.

The Theory of Wage Determination

EDITED by JOHN T. DUNLOP

(Macmillan & Co Ltd, London. 36s net.)

This collection of papers on wage determination by economists from different countries is as varied as the nationalities of the contributors. Some of the attempts to evolve a generally acceptable theory of wages are as remarkable as they are speculative. One can only surmise what Mr Cousins would have to say on two esoteric contributions on the nature of bargaining. Academic economists will admit that their theories on conditions in the labour market do not as yet help greatly towards better understanding thereof. The average employer or personnel manager would be amazed at the lengthy discussion of issues which to him are self-evident. Perhaps it is a pity they cannot change places for a while; both would benefit. There are several very good descriptive essays on the post-war problems, in particular in the United Kingdom and France.

Differential Rents: A Factual Survey

(The Institute of Municipal Treasurers and Accountants. London. 7s 6d post free.)

This survey is described by its publishers as a practical survey and is not concerned with political implications. Twenty-five years ago some local authorities adopted varying schemes for allowing rent rebates to necessitous tenants. These early schemes aimed at giving additional relief to the very poorest tenants who were unable to afford even the subsidized rents of council houses; in contrast, the modern schemes are directed to making tenants who can afford it pay more than the subsidized rents.

The present-day conditions of high interest rates and the withdrawal of housing subsidies exert upward pressure on rents. More and more local authorities thus tend to operate differential rent schemes. There are several types of scheme, and most of them do involve some form of means test, although these words are much less of a political fire-cracker nowadays.

The factual part of the booklet broadly surveys types of schemes adopted by 209 local authorities out of a total of 629 circulated for information. Scrutiny of the individual schemes shows an almost confusing variety of detail in their composition. Nevertheless, the inherent complexities are lucidly explained. Matters like assessing the family income, the proportion of it which can reasonably be taken for rent, the adjustments to be made in the remainder for additional earners such as working wives, children and lodgers are frequently illustrated by figures in a simple and realistic manner. Finally, methods of estimating the effects of a scheme on a local authority's finances, together with administrative provisions and costs, complete the review.

This little book, written in a helpful and stimulating style, ought to prove a most valuable and practical guide to local authorities and their administrators.

The New Zealand Company Secretary

by JOHN S. BARTON, C.M.G.

Seventh Edition

by W. G. ROGER, F.C.I.S.

(Butterworth & Co (Australia) Ltd, Wellington, New Zealand. 42s net.)

The first edition of this book appeared in 1910 and new editions followed fairly frequently until the sixth was published in 1934. Now, after a lapse of some twenty years culminating in the passing of the New Zealand Companies Act, 1955, a seventh edition has emerged bringing the subject up to date as at March 1956. The book's sub-title is *A practical exposition of the duties of secretaries of companies (public and private) incorporated under the Companies Act and limited by shares* and the wide readership to which it is now addressed is emphasized by the statistics reproduced in the book, showing that in March 1955 there were over 25,000 such companies in New Zealand.

The publication of this new edition is timely in the light of the far-reaching changes in company law brought about by the new Act.

Descriptive Economics

by C. D. HARBURY

(Sir Isaac Pitman & Sons Ltd, London. 12s net.)

Although intended for young persons reading economics for the first time, this book will serve as a useful introduction to those requiring general knowledge of the main features of the British economy before they start on the more formal study of economic analysis.

Considerable use is made of diagrams to convey to the reader the magnitudes involved, although not all the diagrams are helpful in this respect. The effort to achieve maximum simplicity leads on occasions to generalizations and there is an absence of argument underlying the numerous conclusions. Despite the minor imperfections, however, the author has performed a difficult task well.

The Case of Torches

by CLARK SMITH

(Hammond, Hammond & Co Ltd, London. 10s 6d net.)

Nicky Mahoun, accountant and amateur detective, by pursuing an apparently unimportant audit note about a missing box of torch cases worth about £2, demonstrates Pope's dictum that mighty contests rise from trivial things.

In this, his third recorded adventure, Mahoun encounters less violence but the evil he overcomes is more subtle and more sinister than on either of the two previous occasions. The book ends with him resigning from his post. Let us hope that he does not take a humdrum job with a firm whose principals, staff and clients are all one hundred per cent respectable. Mr Clark Smith is building Nicky Mahoun into a distinctive character of whom detective fiction connoisseurs are beginning to take notice.

SHORTER NOTICES

PRINCIPLES OF SOUTH AFRICAN COMPANY LAW, fourth edition by Trafford B. Barlow, B.A.(S.A.), LL.B.,(CAPE TOWN), LL.D.(STEL.), and Michael D. Emmett, B.A., LL.B.(CAPE TOWN). (Juta & Co, Cape Town and Johannesburg. Sweet & Maxwell Ltd, London; 52s net.) In this edition, two new chapters have been added, one dealing with the criminal liability of a company, its officers and servants, the other with criminal offences under the Companies Act. The authors having found that these matters are not adequately dealt with in ordinary textbooks on criminal law.

THE PRINCIPLES OF COST ACCOUNTING, twelfth edition, by E. Miles Taylor, F.C.A., F.S.A.A. (Textbooks Ltd, Harpenden, Herts. Paper cover 12s 6d net.) In his introduction, the author rightly asserts that many students approach the subject of cost accounting with some nervousness. As a tranquilizer, this manual, which is at the same time unpretentious and efficient, can be whole-heartedly recommended.

IRISH INCOME TAX AND CORPORATION PROFITS TAX, by H. A. R. J. Wilson, F.C.A., F.S.A.A., and F. N. Kelley, B.A., F.S.A.A. (H.F.L. (Publishers) Ltd, London, 35s net.) This is an entirely new book devoted to income tax and corporation profits tax in the Republic of Ireland. It is particularly welcome because the smallness of the market has greatly inhibited the publication of textbooks. The same consideration has kept down the size of the present book, which is addressed mainly to students and business men, rather than to the professional man. More attention is given, therefore, to explaining in simple language the basic principles than to an exposition of the more recondite branches of the law. Even so, the omission of any table of statutes is regrettable.

THE RENT ACT, 1957, by Robert Steel, B.SC.(EST. MAN.), Barrister-at-Law. (The Royal Institution of Chartered Surveyors, 12 Great George Street, London, SW1. 15s net.) This brief book constitutes a most workmanlike and comprehensive exposition of the changes made by the new Rent Act and is packed with examples, both for England and for Scotland. The approach is extremely practical and thorough, as might be expected from an author who is also the assistant secretary of The Royal Institution of Chartered Surveyors, the publishers.

THE MALTA DIRECTORY AND TRADE INDEX, 1957. (Malta Publicity Services Ltd. 25s 6d post free.) The professional man who has dealings with commerce in the George Cross island will find this comprehensive directory a most useful reference work giving details of nearly three thousand separate firms on the island. The book is in three parts, the first dealing with such diverse background matters as Malta's industries, her constitutional development and the Government's financial statement for the year 1957-58. The second section is a trade index, while the third is devoted to general reference information which includes lists of the members of various professional bodies.

Finance and Commerce

With money tied up in the British Petroleum issue coming back into circulation, the stock-markets have shown greater activity and a firmness in tone in the past week. Investment demand for gilt-edged stocks has been an encouraging development.

'A True and Fair View'

To those who are interested in building society accounts we can recommend *A True and Fair View*, by Mr G. R. Appleyard, F.C.A. It accompanies the accounts, reprinted this week, of the City of London Building Society of which he is chairman, in which the new statutory form of building society accounts is used for the first time.

The changes, he points out, have been ordained by Orders in Council, not by replacement of the Building Society Acts of 1874 and 1894 which are still the main statutory requirements. Since the two nineteenth-century Acts, building societies' total assets have risen from about £18½ million to £2,200 million and it is not surprising, says Mr Appleyard, that the Registrar has called for and obtained changes in Statutory Form A.R.11.

To a layman, he says, this year's changes may appear imperceptible but, speaking as a practising chartered accountant, he welcomes them. He is tempted to ask, in fact, whether they go far enough. Some £2,000 million of public money invested in building societies, he points out, is controlled by one hundred societies, the smallest of which has assets of over £5½ million.

It is to be expected, says Mr Appleyard, that they would be run by men of business acumen and integrity and that their accounts would be audited by a professionally qualified accountant. And yet the Act does not require the auditor to be professionally qualified.

'Meat' in the Wording

Remarking that even among the one hundred or so societies there are some which fall a long way behind the standards adopted by limited liability companies in accounts for publication, Mr Appleyard hastens to add that he is criticizing methods of presentation rather than the societies' stability.

The 'meat' in the wording of the statutory audit report, he says, is contained in the words: 'Correct, duly vouched and in accordance with law'. Supposing the wording were changed and a more comprehensive form introduced which contained as the 'meat' that it is necessary the accounts should show a 'true and fair view'?

Mr Appleyard thinks that if such alteration were made, the accounts would have to bring into account the whole of the taxation liability attaching to the year's results. At present, he says, some societies only bring in the legal liability to account date. They would have to bring in any accrued dividends and

interest due to shareholders and depositors. Some societies now pay dividends the day after the end of the accounting period and therefore do not in every case provide in their accounts for any part of the dividends which may be outstanding for the year. But they would have to show, Mr Appleyard continues, each investment at cost and also show, even if only by way of note, the market value of each investment. Possibly because of the design and form of Form A.R.11, old and new, it is customary, he says, to put all investments together under the rather brief headings of British Government Securities, Colonial and Dominion Securities, British Municipal and County Securities, Other Investments.

More Suggestions

They would have to show the amount of advances agreed but not yet made. No society of which Mr Appleyard is aware does this, but it is a contingent cash liability, he says, and might be material; it could be stated even if by way of note. He also thinks there is some merit in disclosing, perhaps by a note, the amount of withdrawals under notice at the year end. He has in mind the fact that companies, under the 1948 Act, are required to disclose by way of note the capital commitments they have entered into but which are not yet paid.

Mr Appleyard would also like to see: the different classes of shares shown where these carry different dividend rates; comparative figures (although this practice is growing); and a split of the advances under four headings: owner-occupier; investment; industrial; estate development. He thinks the present accounts 1 to 4 are unnecessary, being more likely to confuse the intending shareholder rather than help him. He is not in favour of a series of reserve accounts and prefers one general reserve available for any purpose.

Mr Appleyard draws attention to 'other curious features about building society procedure which certainly merit the attention of our legislators'. Building societies can advertise for funds without any of the requirements being satisfied which are imposed on a limited company or an individual seeking new capital. They can even advertise for funds when they are insolvent. He suggests it should be illegal to advertise for investors unless accounts are filed in proof of solvency and 'solvency' should mean not merely ability to pay 20s in the £: dividend rates, adds Mr Appleyard, should not be advertised which cannot be met out of current year profits.

Money Market

Little change was made in Treasury bill rates on December 13th. The average rate for 63-day bills was £6 9s 9.98d per cent and for 91-day bills £6 9s 1.21d per cent. This week's offer is £50 million of 63-day and £220 million of 91-day bills.

THE CITY OF LONDON BUILDING SOCIETY

1 SHARES ACCOUNT

Withdrawals	£614,515
Dividend Paid	175,200
Due to Shareholders at end of year	5,029,096
	<u>£5,818,811</u>

Subscriptions	£613,537
Dividend	175,200
Transferred from The First Amhurst Building Society	1,449
Due to Shareholders at beginning of year	5,028,625
	<u>£5,818,811</u>

2 DEPOSITS AND LOANS ACCOUNT

Deposits withdrawn	£154,855
Interest on Deposits paid	25,852
Due on Deposits at end of year	999,530
	<u>1,180,237</u>
Loans from Bank repaid	186,000
Interest paid	7,721
Due to Bank for Loans at end of year	—
	<u>£1,373,958</u>

Deposits received	£209,301
Interest on Deposits	26,252
Transferred from The First Amhurst Building Society	1,000
Due on Deposits at beginning of year	943,684
	<u>1,180,237</u>
Loans from Bank	36,000
Interest	5,037
Due to Bank for Loans at beginning of year	152,684
	<u>£1,373,958</u>

3 MORTGAGES ACCOUNT

Advanced on Mortgage:—	
On 309 Mortgages where the advance agreed to will not exceed £3,000	£478,445
On 14 Mortgages where the advance agreed to will exceed £3,000	54,900
	<u>533,345</u>
Interest	342,254
Insurance Premiums	756
Transferred from The First Amhurst Building Society	2,482
Due on Mortgages at beginning of year	5,498,889
	<u>£6,378,726</u>

Repayments of Advances and Interest including Insurance Premiums	959,992
Losses on Realisation:—	
Charged to Account No. 5	395
	<u>5,418,339</u>
Due on Mortgages at end of year	5,418,339
	<u>£6,378,726</u>

4 INVESTMENTS ACCOUNT

Investments made:—	
British Government Securities	£131,022
Profit on realisation of Investments per Account No. 5	1,789
Interest and Dividends as per Account No. 5	30,289
Balance at beginning of year	962,553
	<u>£1,125,653</u>

Proceeds of Investments realised:—	
British Government Securities	132,556
Losses on realisation of Investments per Account No. 5	6,396
Interest and Dividends received	30,339
Balance at end of year	956,362
	<u>£1,125,653</u>

5 REVENUE AND APPROPRIATION ACCOUNT

1956	EXPENDITURE	£
3,000	Management Expenses:—	
16,905	Directors' Fees	3,000
2,881	Remuneration of Staff and Auditors	17,208
	Rates, Insurance, Heat, Light, Cleaning, Repairs, etc.	3,309
2,046	Printing, Stationery and Postages	1,831
2,324	Advertising	2,901
1,990	Commission	794
1,912	General Expenses	2,426
	Total Management Expenses	<u>31,469</u>
31,058	Survey Fees	3,963
3,792	Interest on Deposits	26,252
24,635	Interest on Bank Loans	5,037
9,750	Losses on Mortgages per a/c 3	395
55	Amount written off Freehold Property and Equipment	617
409	Bank Charges	860
92,232	Income Tax	104,655
16,104	Profits Tax for year ended 30.9.57	6,701
162,089	Dividend to Shareholders for year ended 30.9.57	175,200
17,155	Balance carried down	25,864
		<u>£381,013</u>
£347,818		
3,406	Losses on realisation of Investments	6,396
—	Appropriation to:—	
56,864	Dividend Equalisation Reserve Account	20,000
	Balance carried forward	58,608
		<u>£85,004</u>
£60,270		

1956	INCOME	£
308,912	Interest on Mortgages	343,254
31,567	Interest and Dividends from Investments (gross)	30,289
1,247	Rent from Lettings	1,284
3,792	Survey Fees	3,963
33	Other Fees, Rules, etc.	26
2,267	Commission	2,197
		<u>£381,013</u>
£347,818		
43,115	Balance brought forward from last year	56,864
17,155	Balance brought down	25,864
—	Profits on realisation of Investments	1,789
—	Surplus on Transfer of Engagements from The First Amhurst Building Society	487
		<u>£85,004</u>
£60,270		

6 GENERAL RESERVE ACCOUNT

Balance at end of year	£250,000
	<u>£250,000</u>

Balance at beginning of year	£250,000
	<u>£250,000</u>

7 MORTGAGE LOSSES RESERVE ACCOUNT
NIL

7a. DIVIDEND EQUALISATION RESERVE ACCOUNT

Balance at end of year	£20,000
	<u>£20,000</u>

Appropriation from a/c No. 5	£20,000
	<u>£20,000</u>

THE CITY OF LONDON BUILDING SOCIETY

8 BALANCE SHEET				NUMBER OF BORROWERS 4,497		ASSETS	
LIABILITIES		NUMBER OF SHARE INVESTORS 6,387		NUMBER OF DEPOSITORS 812		£	£
1956							
Due to Holders of Shares							
Investing Shares			5,027,945				
Subscription Shares			1,151				
Total			5,029,096				
Holdings exceeding £5,000:—							
Number: 1. Total £7,630							
Due to Creditors for Deposits and Loans							
Deposits repayable at 2 months' notice			6,133				
Deposits repayable at 6 months' notice			161,646				
Deposits repayable at 12 months' notice			5,000				
Deposits repayable at 4 months' notice			5,000				
Deposits repayable at 3 months' notice			147,859				
Deposits repayable at 1 month's notice			29,045				
Deposits held on Fixed Terms			520,572				
Collateral Deposits			98,518				
Accrued Interest			19,157				
			6,600				
Holdings exceeding £5,000							
Number: 21 Total £496,657							
943,684			999,530				
Loans from Bank			—				
Other Liabilities:—							
Survey Fees			221				
Sundry Creditors			1,312				
Directors' and Auditors' Fees			3,600				
Bank Charges			153				
Total			5,286				
Provisions:—							
Income Tax up to 5 April 1958			92,400				
Profits Tax up to 30 Sept., 1957			6,750				
Repairs and Maintenance Fund, including £300 charged in a/c			1,380				
No. 5			—				
Total			100,530				
Reserves:—							
General Reserve Account			250,000				
Dividend Equalization Reserve Account			20,000				
Total			270,000				
Balance of Appropriation Account carried forward			58,608				
The Society's Post-War Credit amounts to £7,853			£6,463,050				
5,523,238			£6,463,050				
HE SOCIETY'S INVESTMENTS				COMMONWEALTH SECURITIES			
Nominal Value	Book Value	Market Value	Nominal Value	Book Value	Market Value	Book Value	Market Value
£	£	£	£	£	£	£	£
50,000	44,283	42,250	15,000	31% New Zealand Stock 1962/65	..	12,525	14,281
100,000	98,037	85,000	15,000	31% Commonwealth of Australia Rgd. Stock 1961/66	..	12,375	14,244
250,000	224,477	193,750	18,000	31% New Zealand Stock 1966/68	..	13,950	16,398
100,000	91,627	78,500	15,000	31% Commonwealth of Australia Rgd. Stock 1965/69	..	11,475	13,682
200,000	185,686	154,000	15,000	21% Commonwealth of Australia Rgd. Stock 1967/71	..	10,425	12,632
50,000	42,877	40,500	£78,000			£50,750	£71,237
200,000	181,189	149,000					
BRITISH GOVERNMENT SECURITIES				BRITISH MUNICIPAL SECURITIES			
9,200	9,200	9,200	9,200	31% Bristol Corporation Red. Stock 1970/74	..	6,670	9,154

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Accounting for Inflation'

SIR, - If I understand him correctly, Mr C. A. Whittington-Smith, in his article in your issue of December 14th, entitled 'Depreciation - and the integration of views on accounting for inflation', would have us abandon orthodox accounting methods in favour of the replacement method of calculating profit, because that method reports the truth. But can he prove his claim?

All economists agree that savings are equal to investment, being the money businessmen have tied up in their fixed assets and stocks. When inflation occurs, they have to increase their investment, but savings are equal to the larger sum involved. Or so we thought, but the replacement method of calculating profit insists that the difference is not an amount saved but must be charged against sales in order to arrive at 'real' or 'true' profit.

It is not disputed that businessmen have obtained this difference from the sale of their goods and I would remind you that the community have paid higher prices in order to provide it, and that equity holders enjoy the benefit of it. I submit that it is saved income whereby savings remain equal to investment.

This equation was proved by Keynes and is the basis of the new economics and I think that Mr Whittington-Smith and all who share his views, must show that when the value of money changes, savings are no longer equal to investment, before they are entitled to claim that replacement profits are true.

Yours faithfully,

Worthing, Sussex.

H. A. BRISCOE.

Receipts and the Cheques Act

SIR, - Having read in your issue of December 14th the letter reproduced from *The Times*, and the references under 'In Parliament' on the above subject, my original thoughts that many businessmen and companies were not deriving full benefit from the provisions made in the Act have been confirmed. In particular, I refer to part of Mr Meller's letter, in which he states:

'Most creditors have either ceased to return their accounts on payment, or will not do so unless specifically asked.'

This, I believe, is entirely what should happen and to avoid problems of this nature, I have reorganized the bought-ledger section of my company, so that, at the time of payments being made, a remittance advice form is forwarded with the relevant cheque and the creditors' statement is filed with the invoices to which it relates.

Furthermore, the cancelled cheques are collected from the company's bankers and are filed with the

statement and invoices to which they refer. In this way, our creditors are put to no unnecessary expense as we require neither a receipt nor any other form of document to be returned through the post.

By a similar token, the company's cashiers have been instructed that receipts will not be sent to customers unless specifically requested. Many of our customers are individuals who pay in person, and if those debtors request a receipt, they have pointed out to them the fact that their cheque will be evidence of payment, but that they can have a duly stamped receipt if they so desire.

Already the company is feeling the benefits, both financially and from the point of view of saving of time and paper-work, and is operating a system which will present the auditor with, if anything, an easier task than heretofore. I feel sure that as more and more companies adapt their systems to something approximating to that outlined above (and there is evidence that such is the case), then really worth-while benefits will accrue to the business world as a whole.

One final comment - many companies are still forwarding their creditors' statements with their settlement cheques, pointing out that although they do not require a receipt for the payment, they do require their statement returned. This request necessitates the expending of another 2d stamp and an envelope by the creditor. In addition, it is another piece of paper to be received and sorted by the debtor company. I suggest that by adhering to this system, many companies are not deriving all the benefits now available to them.

Yours faithfully,

PETER CORBETT,

Secretary,

CARTER & FINMORE LTD.

Southampton.

Insurance Claim and Income Tax

SIR, - Further to the letter of 'Repaid' in your issue of August 3rd last, we have had a similar situation arise in respect of a client who had to hire a car as his had been damaged by a third party. The third party's insurers sent our clients a cheque in settlement for £103 and wrote as follows:

'You remember during our conversation over the telephone, we raised with you the question of income tax and stated that if you include the receipted account for the hiring in your income tax returns, you would, in all probability, be allowed a rebate of tax and, on the other hand, you are not required to include the amount of £103 as income. As insurers of the other party, we have accepted responsibility for your net loss, and should, therefore, be entitled to the refund of any income tax which may be due to you. We will hold these papers outstanding pending your advices in this connection.'

We wrote and asked the insurance company for the authority for their statement that the receipt of the amount of £103 need not be brought to credit in the business accounts, and we told them that it is the normal practice to credit the proceeds of an insurance claim against the expense incurred. The insurance company replied saying that they were not aware that it is the normal practice to credit such proceeds, and they quoted the case to us of the *British Transport Commission v. Gourlay*.

We told them that in our opinion the facts in the *Gourlay* decision were quite different from those in our client's case, and that there was no relevance in quoting that in these circumstances. The insurance company then telephoned us and told us that they had taken counsel's opinion on such matters and had been advised that such claims need not be brought to account. We asked them to let us have this opinion in writing and they then wrote to us as follows:

'We have to inform you that our attitude in matters of this description has been based not so much on any specific authority as upon our inability to accept the authorities quoted by certain tax officials in support of their view that damages for loss of use were subject to tax.

'We had felt that if a suitable case were to be tested nowadays, this contention might well be lost, in which event it could be assumed that a defendant's liability would be net of tax as in the *Gourlay* case.

'Since the onset of this correspondence, however, though for reasons not connected therewith, we have decided to refrain from seeking deduction of income tax for claims for loss of use or hiring charges and we are now filing these papers.'

We should appreciate the views of your readers on the taxation and other implications of the issues involved in this case.

Yours faithfully,
B. G. M.

Current Law

Advancement and Hotchpot

The decision of Upjohn, J., in *Re Hayward, Kerrod v. Hayward* ([1956] 3 All E.R. 608), previously noted in our issue of April 13th, 1957, has been affirmed by the Court of Appeal ([1957] 2 All E.R. 474). Jenkins, L.J., who delivered the leading judgment, said that it seemed to him that the language of Section 47 (1) (iii) of the Administration of Estates Act, 1925 (which contains the hotchpot provisions), showed that it was not every settlement, the benefits under which must be brought into account, but that the settlement must be either by way of advancement or on the marriage of the child concerned. It followed that if in the instant case the nominations were regarded as equivalent to a settlement the matter was still not concluded, as it was necessary still to see whether the disposition was in the nature of an advancement. Considering the relation which the amounts nominated bore to the total of the deceased's estate, his lordship expressed the view that in order to raise a *prima facie* case for accounting it must be shown that the fund in question was sufficiently substantial in itself to be in the nature of a permanent provision, without pressing too far the question of proportion. Otherwise an intestate who had only £50, £25 in cash and £25 in National Savings Certificates, could properly be held to be making a permanent provision for one of his sons by giving him a nomination in respect of the certificates, because they represented no less than half his estate, although the sum given would in itself be trifling.

Mortgagee's Action for Possession in County Court

A consequence of the fact that a legal mortgagee's right to possession arises from the fact that he has a legal term of years in the property is that the County

Court has jurisdiction, under Section 48 of the County Courts Act, 1934, as amended by Section 2 (2) and Schedule 1, paragraph 4, of the County Courts Act, 1955, to determine an action for possession brought by a mortgagee provided that the net annual value for rating of the land does not exceed £100 and irrespective of the amount outstanding on the mortgage. This was decided by the Divisional Court of the Queen's Bench Division in *Regina v. Judge Dutton Briant, ex parte Abbey National Building Society* ([1957] 2 All E.R. 625).

The judge of the Chichester County Court had taken the view that the proceedings were proceedings for enforcing a charge or lien and that as the jurisdiction of the County Court to hear such proceedings is limited by Section 52 of the Act of 1934 to cases where the charge or lien does not exceed the sum of £500, he had no jurisdiction to try the case. Lord Goddard, C.J., pointed out that if the mortgage in question had been an equitable mortgage, that is to say a mortgage constituted merely by the deposit of deeds as security, it would have been perfectly clear that had the mortgagee wished to enforce his rights he would have had to take proceedings for the enforcement of a charge and the proceedings would then have been governed by Section 52: that section would also have applied had the mortgagee wished to have a receiver appointed or to exercise any of the other equitable remedies which the Courts of Equity have for many years given to mortgagees.

Appointment by Administrators of New Trustees

A point of importance in connection with the administration of estates was dealt with by Danckwerts, J., in *Re Cockburn, Cockburn v. Lewis and Others* ([1957] 2 All E.R. 522). Letters of administration to the

testator's estate with the will annexed were granted to the plaintiff and the first defendant and by the time the proceedings were started they had paid and discharged the funeral and testamentary expenses, and the testator's debts and the death duties on his estate; they had also paid and transferred certain stocks in part satisfaction of some of the shares of the beneficiaries in the residuary estate. The learned judge was asked to decide whether the administrators, having cleared the estate and completed the administration in the ordinary way, were in a position to appoint new trustees of the will, and whether such new trustees would be able to exercise the powers which were conferred by the will on the trustees thereof.

His lordship held that whether persons were executors or administrators, they became, once they had completed the administration in due course, trustees holding for the beneficiaries, either on an intestacy or under the terms of the will, and were bound to carry out the duties of trustees, although in the case of administrators they could not be compelled to go on indefinitely acting as trustees and were entitled to appoint new trustees in their place and thus clear themselves from duties which were not expressly conferred on them under the terms of the testator's will and which they were not bound to accept. If the administrators did not appoint the new trustees to proceed to execute the trusts of the will they would become trustees in the full sense. Further, they had the power conferred by Section 36 of the Trustee Act, 1925, to appoint new trustees of the will to act in their place.

Claim to Remuneration as on a *Quantum Meruit*

The plaintiff company in *William Lacey (Hounslow) Ltd v. Davis* ([1957] 2 All E.R. 712) was asked by the defendant for a tender in connection with a reconstruction scheme. The plaintiff was given to understand that it would receive the contract and thereafter did on the defendant's behalf a considerable amount of work which fell right outside the work which a builder, by custom and usage, normally performs gratuitously when invited to tender for the erection of a building. As a result of the estimates and other information provided by the plaintiff the defendant was able to obtain from the War Damage Commission a substantially increased amount. The defendant failed to give the plaintiff the contract, and the plaintiff brought an action claiming damages for breach and, alternatively, remuneration as on a *quantum meruit* in respect of the work done by it subsequent to the original tender.

The claim for damages failed, but Barry, J., held the plaintiff entitled to succeed on the basis of a *quantum meruit*. His lordship pointed out that the action for a *quantum meruit* is today founded on what is known as 'quasi-contract', similar, in some ways, to the action for money had and received. In these quasi-contractual cases the Court will look at the true facts and ascertain from them whether or not a

promise to pay should be implied, irrespective of the actual views or intentions of the parties at the time when the work was done or the services rendered. The learned judge referred to cases where work was done which was to be paid for under the terms of a contract erroneously believed to be in existence, and said that he could see no distinction between those cases and cases in which work was done which was to be paid for out of the proceeds of a contract which both parties erroneously believed was about to be made. In both cases, when the beliefs of the parties were falsified, the law implied an obligation to pay a reasonable price for the services which had been obtained.

Restraint of Trade

In *Kores Manufacturing Co Ltd v. Kolok Manufacturing Co Ltd* ([1957] 3 All E.R. 158), Lloyd-Jacob, J., considered a question on restraint of trade the like of which had not, it appeared, been considered by the Court before. The parties both carried on business in the manufacture of carbon papers and typewriter ribbons in adjacent premises in London, and agreed with each other to refrain from engaging any person who had been in the employment of the other during the previous five years. His lordship held that, even if it was reasonable to provide in the interests of the two companies that competition for work-people should be avoided (a point which he did not decide), there was no evidence to establish that a period of five years was appropriate to any category of employee, still less to all categories, and accordingly he could not hold that it was no more than the interests of the parties necessitated. Furthermore, the agreement was against the public interest because it constituted a fetter on an employee's freedom to offer his labour where he wished and one which no interest of the employers necessarily required for their protection. Accordingly, his lordship refused to grant an injunction restraining the defendant company from breaking the agreement between it and the plaintiff.

Ratification not Possible

Although *Boston Deep Sea Fishing and Ice Co Ltd v. Farnham* ([1957] 3 All E.R. 204) is primarily of importance as an authority on the income tax law, it is also of importance as being illustrative of the general principle that in order that the act of an agent may be effectively ratified, the principal must have been competent at the time when the act was performed. After the fall of France in 1940, a French trawler, the *S. Jean*, came to an English port and was managed by the appellant company. In 1945 the French company which owned the vessel purported to ratify the acts of the appellant. Harman, J., held that it was unable to do so because at the time when the acts were done the French company was an alien enemy at common law and therefore not a competent principal.

Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'.

Phipps v. Orthodox Unit Trusts Ltd

In the Court of Appeal – October 14th, 1957
(Before Lord Justice JENKINS, Lord Justice PARKER and Lord Justice PEARCE)

Income tax – Action for wrongful dismissal – Loss of remuneration – Whether plaintiff must give particulars of taxable income and assessments and allowances – Rules of Supreme Court, Order 19, Rule 4.

In an action for wrongful dismissal from the position of managing director of a company the plaintiff alleged that the wrongful dismissal occurred on July 13th, 1949, and claimed that he was entitled to remain in the service of the company during the life of the company's trust. He pleaded that his

damages should be computed at the amount of remuneration (and director's fees) which, he alleged, he had lost. The defendant applied for particulars of the alleged damage, and required the plaintiff to state the amount of his taxable income from 1948–49 onwards, the amount of all assessments of income tax and surtax for each of those years and particulars of any facts entitling him to tax allowances.

Held, that the particulars should be ordered, because the real amount of any damage suffered by the plaintiff was the amount of his lost earnings after tax had been taken into account, but that in this kind of case particulars should be limited to those reasonably necessary to enable the party seeking them to know the case he has to meet.

ANSWERS TO 'A CHRISTMAS WHO'S WHO'

The questions appear elsewhere in this issue

- | | | |
|--------------------------------------|--------------------------------|-----------------------------------|
| 1. Addams, Dawn. | 34. Ibanez, Vicente. | 68. Quilter, Roger. |
| 2. Adrian IV (Nicholas Breakspeare). | 35. Ingoldsby, Thomas. | 69. Quin, James. |
| 3. Aram, Eugene. | 36. Irving, Sir Henry. | 70. Quisling. |
| 4. Austen, Jane. | 37. Isaacs, Sir Rufus. | 71. Récamier, Madame. |
| 5. Bentham, Jeremy. | 38. Jebb, Sir Gladwyn. | 72. Revere, Paul. |
| 6. Bondfield, Margaret. | 39. Jenner, Edward. | 73. Reynolds, Sir Joshua. |
| 7. Boycott, Charles Cunningham. | 40. Jowett, Benjamin. | 74. Ross, Harold. |
| 8. Burns, Tommy. | 41. Jowitt, Lord. | 75. Rouget de Lisle. |
| 9. Byron, Lord. | 42. Keats, John. | 76. Sackville-West, Victoria. |
| 10. Claudius. | 43. Kern, Jerome. | 77. Schweitzer, Albert. |
| 11. Clough, Arthur Hugh. | 44. Kipling, Rudyard. | 78. Shelley, Percy Bysshe. |
| 12. Coquelin. | 45. Kyrle, John. | 79. Sun Yat-sen. |
| 13. Craik, Mrs. | 46. Lincoln, Abraham. | 80. Temple, William. |
| 14. Descartes. | 47. Lopes, General Graveiro. | 81. Terry, Ellen. |
| 15. Disraeli, Benjamin. | 48. Lopokova. | 82. Thackeray, William Makepiece. |
| 16. Donizetti. | 49. Lyte, Henry Francis. | 83. Todd, Sir Alexander. |
| 17. Dostoevsky. | 50. Macaulay, Lord. | 84. Turner, J. M. W. |
| 18. Eddy, Mary Baker. | 51. Maisky, Mr. | 85. Undset, Sigrid. |
| 19. Edward IV. | 52. Marquis, Don. | 86. Urquhart, Sir Thomas. |
| 20. Elijah. | 53. Millais, Sir John Everett. | 87. Ursula. |
| 21. Eugenie, The Empress. | 54. Milton, John. | 88. Veronese, Paulo. |
| 22. Florio, John. | 55. Nash, Richard ('Beau'). | 89. Volstead, Andrew J. |
| 23. Flotow. | 56. Newman, John Henry. | 90. Wagner, Richard. |
| 24. Fokine, Michael. | 57. North, Lord. | 91. Walpole, Hugh. |
| 25. Fyfe, Sir David Maxwell. | 58. Novello, Ivor. | 92. Wesley, John. |
| 26. George III. | 59. O'Brien, L. K. | 93. Woolley, Sir Richard. |
| 27. Gladstone, William Ewart. | 60. Orwell, George. | 94. Wordsworth, William. |
| 28. Godolphin, Sidney. | 61. O'Shaughnessy, Arthur. | 95. Xavier, St Francis. |
| 29. Gresham, Sir Thomas. | 62. Ouida. | 96. Xerxes. |
| 30. Hammett, Dashiell. | 63. Parnell, Charles Stewart. | 97. Yeats, W. B. |
| 31. Harvey, William. | 64. Pascal. | 98. Young, Brigham. |
| 32. Holbein. | 65. Patti, Adelina. | 99. Ziegfeld, Florenz. |
| 33. Hugo, Victor. | 66. Plowden, Sir Edwin. | 100. Zola, Emile. |
| | 67. Pugin, Charles Augustus. | |

THE NOTTINGHAM SOCIETY OF CHARTERED ACCOUNTANTS

Annual Dinner at the University

A company of over 360 attended the annual dinner of The Nottingham Society of Chartered Accountants held at the University, Nottingham, on December 12th. Mr R. W. Cox, F.C.A., President of the Society, presided, and with Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of the Institute, received the members and guests.

Among those present were Alderman W. Hickling, J.P., Lord Mayor of Nottingham; The Right Rev. A. E. J. Rawlinson, D.D., Lord Bishop of Derby; Mr J. Anstey, C.B.E., Managing Director of John Player & Sons Ltd; Mr B. L. Hallward, M.A., Vice-Chancellor of the University of Nottingham; and

Mr S. F. Barrell, B.Arch., A.R.I.B.A. (President, Nottingham, Derby and Lincoln Society of Architects); Prof. E. J. Barrington, M.A., D.F.C. (Deputy Vice-Chancellor, University of Nottingham); Messrs J. M. S. Coates, O.B.E., F.C.A. (President, Northern Society of Chartered Accountants); F. Downing, F.C.A. (President, Sheffield and District Society of Chartered Accountants); P. D. Irons, B.COM., A.C.A. (President, South Eastern Society of Chartered Accountants).

Messrs S. Kitchen, F.C.A. (President, Birmingham and District Society of Chartered Accountants); R. D. Lea, F.C.A. (President, Leicestershire and Northamptonshire Society of Chartered Accountants); J. E. Leek, F.R.I.C.S. (Chairman, Royal Institution of Chartered Surveyors, Nottingham, Lincolnshire and Derby Branch); F. C. J. Lofting (H.M. Inspector of Taxes); Councillor J. Lewellyn Davies, F.R.C.S. (Sheriff of Nottingham); Dr K. R. Minto, M.B., CH.B. (President, British Medical Association).

Messrs W. E. Manchester, A.C.I.I. (President, Nottingham Insurance Institute); T. J. Owen (Town Clerk of Nottingham and President of Nottinghamshire Law Society); L. S. Pentecost (Deputy President, Nottingham Chamber of Commerce); H. Pickbourne, O.B.E., M.A. (Registrar, University of Nottingham); J. F. Powell (Chairman, Nottingham Stock Exchange); A. E. Shaw, F.C.A. (President, East Anglian Society of Chartered Accountants).

Messrs D. Steele, F.C.A. (President, Leeds, Bradford and District Society of Chartered Accountants); E. C. Stimpson (Official Receiver in Bankruptcy); C. C. Taylor, J.P., F.C.A. (President, Liverpool Society of Chartered Accountants); R. Usher, E.R.D., F.I.B. (President, Nottingham and District Institute of Bankers); Dr R. H. Vartan (President, Nottingham Medico-Chirurgical Society); Mr E. K. Wright, M.A., F.C.A. (Chairman, London and District Society of Chartered Accountants).

Accountants in Industry

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr Anstey said that as far as industry was concerned, he felt that if the profession could 'keep us supplied with the standard of men we now have, we have no fear'. He went on:

'The accountant in industry is expected to play his part in almost every phase of operating. My industry paid well over £700 million to the Exchequer in tobacco tax in the last financial year, as well as other taxes. It is no mean feat, and I pay tribute to the part of the accountants in this operation. Apart from anything else, they keep us from paying more than is due from us.'

As the life of the community gets more and more complex it is up to you to provide the men and I know you will not fail in this. Good young accountants are hard to find

and I would hope that you are doing all you can to attract the right men so badly needed by us.'

Mr Anstey said that whatever was done in this direction he was sure that there would be no lowering of the very high standard of integrity and conduct of the profession. He added:

'We want top-grade men to fill vacancies up and down the line, men who are prepared to offer a full knowledge of the profession, the law, the facts of life and human understanding. But he must be prepared to keep himself up to date. We have just inflicted electronic development on our accountants and these flexible men have adapted themselves to these new conditions with enthusiasm.'

Mr Anstey said that in providing the best possible training for young accountants, a Chair of Accountancy at Nottingham University might be considered.

Distinguished Nottingham Members

Responding to the toast, Mr Lawson said that the Nottingham Society had always played a very important part in the affairs of the Institute. He continued:

'You have provided very distinguished accountants to serve on our Council and, in addition, two of our Past Presidents, though ranking as London members, started their life in Nottingham - the founder of my own firm, Sir Bernhard Binder, and Sir Harold Howitt. Both spent their early days in Nottingham and came to London as young men. Sir Harold Howitt recently ascended a new pinnacle in the stratosphere - if there are pinnacles in the stratosphere - when he was appointed by the Government as one of the three wise men to advise on prices, productivity and incomes. I noticed a cartoon in *Punch* at the time which depicted the three wise men as 'Three men in a boat'. Sir Harold was holding the punt pole which, presumably, meant that he was expected both to steer and to propel the committee.'

Referring to the needs of clients, Mr Lawson said that there had been a tremendous increase in the demand for advice and assistance in the new techniques of management accounting, cost accounting and office organization. Members, he said, were keeping well abreast of these developments and there was now within the Institute's membership a wealth of knowledge and experience in these fields.

The toast of 'The Guests' was proposed by Mr R. Bryn Owen, F.C.A., and the Bishop of Derby responded.

Mr A. B. Inger, A.C.A., proposing a toast to the chairman, said that to Mr Cox had fallen most of the responsibility for local arrangements for the integration scheme. He went on:

'Although a busy man, Mr Cox has given his time unstintingly to this work and it is fitting that his services to the Nottingham Society and the profession should be recognized by the position which he occupies tonight.'

'We have been very fortunate in Presidents, and during his term of office he has maintained and enhanced the high standard of those who have gone before him.'

Mr Cox, replying, said: 'The Society of Incorporated Accountants have joined us and that will strengthen us both locally and nationally' - adding humorously: 'We hope to pick up one or two golfers, too.'

Notes and Notices

ANNOUNCEMENT

Increase in Subscription Rates

Advances in costs of paper and printing have already obliged most national newspapers and periodicals, as well as our professional contemporaries, to raise their charges and it is with reluctance that we now have to announce an increase in the price of *The Accountant*.

Commencing with the issue of January 4th, 1958 – the first issue of the next volume – the price will be 1s 9d per copy. The annual subscription, as from January 1st, 1958, will be £4 18s including postage; for six months the subscription will be £2 10s including postage. (Postage on subscribers' copies amounts to 10s 10d a year, of which only 7s is charged in the subscription rate.)

The concessional subscription for articled clerks will be £3 9s, including postage, for twelve months. Application forms may be obtained from our publishing offices, 27–28 Basinghall Street, London, EC2.

For the airmail edition, the annual subscription will be £7 15s; for six months the rate will be £3 17s 6d.

We feel sure our readers will appreciate the circumstances which have compelled us to reach the decision to make these increases. For over eighty years it has been our policy to provide the maximum service to our readers and to the profession and this we shall make every endeavour to continue and develop.

PERSONAL

MESSRS JARVIS, MAXWELL CHALMERS & Co, Chartered Accountants, of 230 Strand, London, WC2, announce that they have admitted into partnership Mr MICHAEL J. LUNZER, A.C.A., of Fulwood House, Fulwood Place, WC1, and Mr FRANK COLLINS, A.C.A., of 29 Finsbury Square, EC2, whose practices are being amalgamated with their own. The name of the firm will remain unchanged and the combined practice will be conducted from 230 Strand, London, WC2.

MESSRS WILLIAM PRICE & Co, Chartered Accountants, of Bristol, announce that they have now removed their offices to 1 St Paul's Road, Bristol, 8. Telephone: Bristol 38833.

MESSRS ROBBINS, CALVERLEY & Co, Chartered Accountants, announce that as from December 21st, their address will be 781 Salisbury House, London Wall, EC2.

PROFESSIONAL NOTES

Mr B. C. Cornes, F.C.A., has been elected to the board of Kelsey Industries Ltd.

Mr W. M. Lowe, M.A., A.C.A., has been appointed secretary of Donald Macpherson & Co Ltd.

Mr Maurice Tattersfield, A.C.A., F.C.C.S., managing director of Brush Electrical Engineering Co Ltd, of Loughborough, has been appointed an executive director of the board of The Brush Group Ltd. Mr Tattersfield remains a non-executive director of Brush Electrical Engineering Co Ltd.

The Hon. J. W. Remnant, A.C.A., has been appointed to the board of the Australian Mercantile, Land and Finance Co Ltd.

Mr B. T. Chisholm, A.C.A., general manager of Flowers Breweries (Northern) Ltd, has been elected a director of the company.

Mr G. W. Flint, C.A., A.C.W.A., for some years manager and secretary of The Central Mining & Investment Corporation Ltd, has relinquished the latter appointment in order to devote his time fully to management.

Mr W. I. French, D.S.O., C.B.E., T.D., C.A., will join the board of The Scottish Life Assurance Co Ltd, as from December 31st, 1957.

Mr J. R. Phelan, A.S.A.A., has been appointed secretary and accountant of James Crean & Son (1936) Ltd.

IN PARLIAMENT

Stamped Receipts

Sir J. CROWDER asked the Secretary to the Treasury if he is aware that many firms and nationalized industries are still not sending duly stamped receipts for accounts amounting to over £2 paid by cheque or otherwise; and if he will make a further public statement to clear up the present continuing misunderstanding.

Mr POWELL: Yes. In general, the recipient of a payment is under no obligation to give a receipt if none is demanded, but he must give a stamped receipt for a payment of £2 or more if the payer asks for it. This has always been the position, and nothing in the Cheques Act has altered it.

Hansard, Dec. 12th, 1957. Written Answers. Col. 147.

FIRM'S 75th ANNIVERSARY

The partners of Messrs W. B. Keen & Co, Chartered Accountants, of London, recently held a reception for friends and clients of the firm at St Stephen's Club, Westminster, on the occasion of the seventy-fifth anniversary of the founding of the firm by the late Mr William Brock Keen, on December 1st, 1882.

The toast of 'W. B. Keen & Co' was proposed by Mr Aiken Watson, Q.C., Recorder of Colchester, and in his reply, Mr Percy F. Carpenter, F.C.A., the present senior partner, recalled that at the first Final examination held by The Institute of Chartered Accountants in England and Wales in 1882, Mr W. B. Keen had been placed first in order of merit. Mr Keen's first articled clerk, the late Mr James B. Reeves, who had been articled shortly after Mr Keen commenced to practise, was also placed first in order of merit in the Final examination in 1887. Later, Mr Reeves was admitted to partnership with Mr Keen, who had been joined by the late Mr Charles J. March, and the three partners had continued in active practice together for more than fifty years.

Throughout the whole of the seventy-five years, the partners have taken considerable interest in the affairs of the Institute and of the London Students' Society, of which Mr R. J. Carter, B.COM., F.C.A., is the present Secretary. There are probably few firms which have practised under the same firm name for such a long period.

To commemorate the event, the staff made a presentation to the partners, who, on a previous evening, had entertained the staff and their ladies to dinner at *The Charing Cross Hotel*, followed by a visit to a theatre.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

NORFOLK AND SUFFOLK BRANCH ANNUAL DINNER

A company of 100 attended the annual dinner of the Norfolk and Suffolk Branch of The Institute of Cost and Works Accountants at the Flixton Room, Norwich, on Friday, December 6th. The guests were received by the President, Mr R. T. Jarvis, A.C.W.A., with Mrs Jarvis, and by Mr J. Borsay, F.C.W.A., President of the Institute, with Mrs Borsay.

Among those present were the Lord Mayor of Norwich, the Bishop of Thetford, the Mayor of Great Yarmouth, Mr A. Ryrie, M.A., LL.B., director of Reckitt & Colman Ltd and President of Norwich Chamber of Commerce, Mr A. J. Barnard, B.A., F.I.M.T.A., A.S.A.A., City Treasurer of Norwich, Mr Stanley J. D. Berger, M.C., F.C.I.S., Director of the Institute, and

Messrs A. E. Shaw, F.C.A. (*President, East Anglian District Society of Chartered Accountants*); R. H. Taylor, F.S.A.A. (*President, Incorporated Accountants' District Society of East Anglia*); P. A. Bainbridge (*President, Norfolk and Norwich Incorporated Law Society*); W. E. K. Bryant, A.M.B.I.M., F.I.B., F.C.C.S. (*Chairman, Norwich Branch of the British Institute of Management*); and F. Williams, A.C.I.S., A.B.S. (*Vice-Chairman, East Anglian Branch of the Chartered Institute of Secretaries*), each with their ladies.

The toast of 'The City of Norwich' was proposed by Mr Berger, who commented on the foresight shown by the city in being one of the first municipalities to install an electronic computer. In his reply, the Lord Mayor stressed the necessity for all professional bodies to maintain a deep interest in the affairs of their students, and to help them in their development wherever possible.

Replying to the toast of 'The Institute of Cost and Works Accountants', proposed by Mr Ryrie, Mr Borsay took this theme still further, and made a strong plea for industrial companies to give the same facilities to accountancy students that they extended to technical students. In particular, they should be given permission to attend full-time day courses where these are available, and to obtain as much practical experience as possible while at work. Already some seventy large firms had started training schemes along these lines for students of the Institute.

The toast of 'The Guests' was proposed by Mr W. G. Howes, F.C.W.A., the branch Vice-President, and the reply was made by the Mayor of Great Yarmouth.

CONVERSION OFFER

2½ Per Cent Defence Bonds and 2½ Per Cent Defence Bonds (Conversion Issue)

The Treasury has announced that a conversion offer will be made to holders of 2½ per cent Defence Bonds purchased between April 1st, 1948, and September 30th, 1948, and maturing between April 1st, 1958, and September 30th, 1958, of which £5½ million are outstanding and also to holders of 2½ per cent Defence Bonds (Conversion Issue) maturing on May 1st, 1958, of which £11½ million are outstanding.

These holders will be invited to exchange their holdings into 4½ per cent Defence Bonds (Conversion Issue) on the tenth anniversary of the date of purchase in respect of the subscription issue and on May 1st, 1958, in respect of the maturing conversion issue. Holders of the subscription issue who accept the offer of conversion will be paid interest at 2½ per cent per annum for the period from April 1st, 1958, to the date of exchange, and 4½ per cent per annum from the date of exchange to September 30th, 1958; the maturity premium of £1 per cent will be paid on the date of exchange. Holders of the conversion issue who accept the offer of conversion will receive a final payment of six months' interest at 2½ per cent per annum, together with the maturity premium of £1 per cent, on May 1st, 1958; the first payment of interest at 4½ per cent on those Bonds converted will be made on October 1st, 1958. Acceptance of the offer of conversion will not involve any break in the holders' encashment rights. If the offer is not accepted, interest on the maturing Bonds will cease on the tenth anniversary of the date of purchase (in the case of subscription issue bonds) or on May 1st, 1958 (in the case of conversion issue bonds).

The terms of the new conversion issue bond will be the same as those of the 4½ per cent Defence Bonds currently on sale, except that interest will be payable on April 1st and October 1st. The full conversion terms will be given in the prospectus and notice which will be issued to individual holders on December 28th, together with forms of request for conversion and forms of authority for repayment for the use of holders who do not accept the conversion offer. The list of acceptances of the conversion offer will be closed on January 31st, 1958.

Apart from bonds inherited from a deceased holder, the maximum amount of Defence Bonds that a person may hold, either solely or jointly with any other person, is £2,000 3½ per cent Defence Bonds (Subscription Issue), £1,000 4 per cent Defence Bonds (Subscription Issue), £1,000 4½ per cent Defence Bonds (Subscription Issue) and £3,500 in the aggregate of all other issues of Defence Bonds, including the present issue of 4½ per cent Defence Bonds (Conversion Issue).

AUTOMATIC DATA PROCESSING COURSE

A five-day course on management for automatic data-processing is to be held at *The Washington Hotel*, Curzon Street, London, W1, from January 20th to 24th, 1958. The course, which is organized by John Diebold and Associates Inc, of New York, with the support of the British Institute of Management, is based on the study and experience of 1,000 computer installations in the United States.

It aims to provide those attending with the necessary practical knowledge to weigh up a company's need for a computer system and to carry a program through from the initial study to the final installation and operation; a section of the course will be devoted to methods of selecting and training personnel for automatic data processing.

Further information about the course, for which the fee is 85 guineas, may be obtained from John Diebold and Associates Inc, Europe, 47 Chalton Street, London, NW1.

JOHN FOORD & COMPANY

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ORGANIZATION AND METHODS IN THE
OFFICE

A course on organization and methods in the office, arranged by the Liverpool College of Commerce, will be held at the college from May 5th to 16th, 1958. The course aims to provide a useful working knowledge of the aims, methods and techniques of 'O. and M.' and is primarily intended for office managers and executives, but should be of value to any senior officer who has problems of staff control and organization in the office.

The course, for which the fee is £3 3s, will be held daily from 9.30 a.m. to 4.30 p.m.; residential accommodation is available. Further information may be obtained from Mr C. E. Frost, M.C., B.A., M.B.I.M., Head of the Department of Commerce and Administration, College of Commerce, Tithebarn Street, Liverpool, 2.

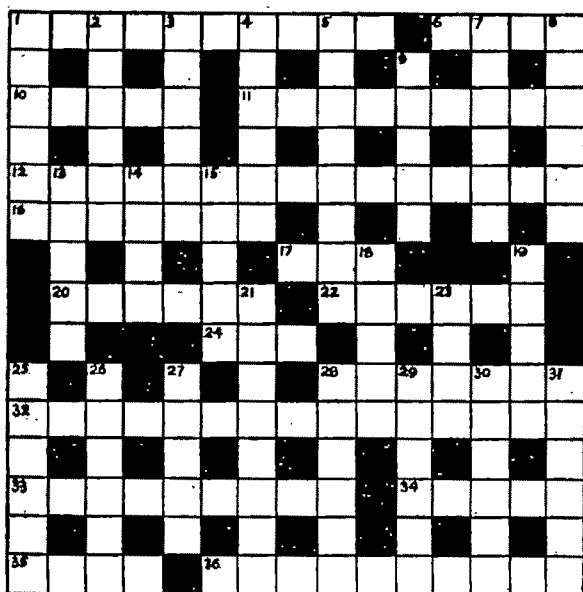
BUSINESS EFFICIENCY EXHIBITIONS
IN 1958

The 1958 National Business Efficiency Exhibition, organized by the Office Appliance and Business Equipment Trades Association, is to be held at the City Hall, Manchester, from September 22nd to 27th, 1958.

The Association's 168th regional business efficiency exhibition will be held at the Nottingham Ice Stadium, from May 12th to 16th, 1958, and the Association is sponsoring jointly with the Radio Communication and Electronic Engineering Association, Britain's first national electronic computer exhibition at Olympia, London, from November 28th to December 4th. The display will include data-handling equipment of all types.

CHRISTMAS CROSSWORD

Compiled by Kenneth Trickett, A.S.A.A.



ACROSS

1. Cut out the service - it's an imposition! (6, 4).
6. Methods of raising money with no means (4).
10. Be consistent, but eager to differ (5).
11. Advocate in Scotland (9).
12. Suitable date for watchnight service? (3, 5, 2, 5).
16. Wine vaults, we hear, have a sale (7).
17. The agent repaid without assistance (3).

20. Assemble the rag for book-making (6).
22. A hundred kopecks (6).
24. Half of Dorset involved in a Cornish mining lease (3).
28. Minors (7).
32. Secret act ruined, thus increasing amount repayable (7, 8).
33. Sheet size about 8 in. by 5 in. (9).
34. Taking possession (5).
35. Five Spanish francs (4).
36. Entitled to drawback (10).

DOWN

1. Establishes by law (6).
2. Combination of firms to convey the French back (6).
- 3 & 18. When coined money becomes more profitable than bills (6, 5).
4. Debt is slightly varied (6).
5. Not the reverse of the aggregate sales (8).
7. Accept tenancy under new landlord (6).
8. Rough draft (6).
9. Such statistics are a matter of life and death (5).
13. Protect oneself from betting losses in the garden (5).
14. Uniformly uninteresting tenement (4).
15. Exempts (5).
18. See 3.
19. Reserve funds, or possibly periods for calculating 32 (5).
21. Make new recommendations (8).
23. He is one of 16 who anticipates a fall in price (4).
25. With no calls outstanding (4, 2).
26. A short account with a Herefordshire town is over (6).
27. Purchaser (5).
28. Revenue (6).
29. Least (6).
30. Ten are more concisely put (6).
31. Suspended (6).

The solution will be published in next week's issue.

MOTOR — FIRE — CONSEQUENTIAL LOSS
CAR & GENERAL INSURANCE L^{TD}
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A YEAR OF DECISION

NO profession in a dynamic society can remain static and survive. It must continually improve itself by gaining from the experience of the passing years so that, to its original foundations, it adds the best to be derived from the manners and modes of the successive generations it serves.

If this generalization were to be applied to accountancy, it might truthfully be said that the profession has adapted itself admirably to the changing circumstances of the times. On various special occasions during the past few years the highlights of its history have been recalled and two dominant impressions have been obtained from these 'flashbacks'. One is of the vision of its leaders in recognizing the need to elevate the standards of the profession to equip it for the ever-increasing variety of services demanded of it. The other and more recent trend observed is the realization that a consolidated profession is much more likely to command the attention of the business world than one divided into a number of friendly but independent bodies.

In 1957, a major move towards the unification of the profession in this country was accomplished when The Society of Incorporated Accountants went into liquidation and its members were invited to join one of the three Chartered Institutes. It fell to a lady, MRS E. M. WRIGHT, A.C.A., the chairman of the Women Chartered Accountants' Dining Society, to say the other evening, with feminine forthrightness, what many accountants must have been thinking for months; that is that she was glad that the word 'integration' would soon drop out of our vocabulary. Even now, the secretariats of the three institutes and the liquidators of the Society are working to that end. The last word, as always, however, rests with the members themselves and, as we said some time ago, the difficult years of transition which lie ahead will certainly be made easier if it is remembered that the future of the profession itself depends very much on the successful implementation of the schemes. The best way to forget 'integration', once having accepted it as an idea, is to make it work as a reality.

The seventh of the series of international congresses on accounting, inaugurated in 1904, took place at Amsterdam last September and was adjudged an outstanding success by the 2,800 delegates from over forty countries who attended. Approximately 300 accountants from this country were present. A full programme which blended discreetly the serious and the social sides of the profession was planned and carried out to perfection. At the six business sessions, thirty-one papers altogether were presented. Delegates from the Netherlands, America and the United Kingdom provided six each, the others being contributed by the

representatives from Canada, France, Germany (two each), Australia, Austria, Belgium, Denmark, Finland, India and Sweden.

The summer meetings of the various professional bodies in this country were fewer in number this year as neither the Society nor The Association of Certified and Corporate Accountants participated. The English Institute held its eleventh summer course at Christ Church, Oxford, and the Scottish Institute its fifth summer school at St Andrew's University. Why the one should be a 'course' and the other a 'school' is perhaps a question for the psychologist rather than for the philologist because both, as before, served exactly the same purposes – that of combining a little learning with the pleasant opportunity of exchanging views on a wide variety of topics with fellow members. The Institute of Cost and Works Accountants held its eighth summer school [sic] at St Catharine's College, Cambridge, in September.

The annual awards of this journal for merit in the form and content of published company accounts with special regard to presentation and the adequacy of the information supplied in them, went this year to The United Steel Co Ltd and Trawlers Grimsby Ltd. The latter gained the trophy reserved for concerns with accounts which do not involve the complexity of those of a large group and, in referring to this at the presentation ceremony, the chairman of Trawlers Grimsby wittily said that it was fitting that his company should represent 'the smaller fry'.

Among the notable professional publications of the year was a new recommendation by The Institute of Chartered Accountants in England and Wales – No. XVII in the series of *Recommendations on Accounting Principles* which began in 1942. The subject-matter was 'Events occurring after the balance sheet date' and the Council of the Institute made clear in its comments which of these should be taken into account in preparing the annual financial statements. Another Institute document of considerable importance issued in 1957 gave guidance to accountants on how to proceed when it came to their notice that a client might have been guilty of some unlawful act or default. The statement set out clearly the position in England and Wales and the consequent legal duties which rested on a member practising in these countries. A new pamphlet, produced this

month by the Association with the title *The Planning and Measurement of Profit – a technique of management accounting*, emphasized the importance of establishing a profit target which bears a reasoned relationship to the capital employed in the business.

Apart from the perennial Finance Act, the main piece of legislation promulgated in 1957 of consequence to accountants was the Cheques Act. A device to save both time and money and, therefore, commendable, there is no reason why every commercial concern down to the small tradesman with incomplete records should not benefit from it. The accountant, in his capacity as auditor, can do much to further this reform.

Rising running costs have affected the accountancy practitioner no less severely than other professional men and his own remuneration, in many instances, seems to lag behind in the race up the spiral staircase of inflation. Aware of this, the American Institute of Certified Public Accountants has opened a new department of its secretariat, the functions of which will be to assemble information on the economic facts of public accounting and on the problems of conducting an accountancy practice so as to determine whether or not the profession is being sufficiently remunerated to carry adequately present-day overheads. The field is a comparatively new one and the outcome of the department's researches will be eagerly awaited.

In 1957, the tradition of willingness among members of the profession to accept public duties has been well maintained. Reference to but three recent examples indicates the diversity of the assignments undertaken. One accountant – to keep him anonymous in view of his eminence is like trying to hide Nelson's Column with a newspaper – was appointed as one of a council of three to examine and report to the Government on prices, productivity and incomes; a second accountant was invited to join a panel – also of three members – to which differences about values in certain cases where works of art are offered in lieu of estate duty will be referred; and a third accountant has been given the task – tackled on a previous occasion by one of his partners – of making an independent investigation into the costs of operating London taxis with a view to advising THE HOME SECRETARY on the revision of present fares.

CALCULATING THE ODDS

by W. J. FINDLAY

TWO of the most active agents in this country for the redistribution of income are taxation and gambling. The first of these is imposed by statute and provides the means for maintaining an ordered society. The second is just within the law and can become a grave social evil when indulged in to excess. Yet, as Burke said, 'to tax and to please is not given to men', whereas to offer facilities for gambling is to fascinate. Even books about numbers and chance impart a vicarious thrill which (one must admit) is not obtained from reading, say, *Simon* or *Staples*.

Three such books have recently been published. The first, by W. J. Reichmann, deals mainly with number theories and relationships.¹ The author's approach to his subject is scientific but there are some lighter dissertations on pseudo-telepathy and on mathematical fallacies. Indeed in demonstrating that purely mathematical results, when applied to practical matters, may be ridiculous, Mr Reichmann reveals a mordant wit. In theory, if three men take three hours to make a concrete path, then ninety men should do it in six minutes but, he comments –

'Even allowing for the shovel-leaners, team-makers and card-players of this large labour force, the remainder of the pathmakers would still be so numerous that they would constantly be falling over each other.'

Personal and Practical

The second book of the trio, by E. Lennox Figgis, is both personal and practical.² The author's aim is to analyse the various kinds of contingencies on which people gamble so that they may appreciate the factors which affect the outcome of their speculations. His assessments are shrewd and sometimes humorous and the morals which his tables of probabilities point are unmistakable. Two of his best chapters are on horse-racing in America and the Liverpool wheat futures market, which institution with others of its kind he stoutly defends as being essential to the fair marketing of the world's staple commodities. His narrative contains many

interesting illustrations of the workings of chance. Perhaps the most striking is the calculation of a seventeenth-century French mathematician that if the two million inhabitants of Paris paired off to play 'heads or tails' and contracted to stop only when the state of the game in each case was all square, then, at the rate of some 30,000 tosses per game per day, ten games (carried on by the descendants of the original players) would still be in progress ten centuries later.

Need for Experiment

Both Mr Reichmann and Mr Figgis aim primarily to entertain, but the third book, by G. Spencer Brown, is sterner stuff.³ That, however, is not to say that it is not entertaining. The author argues with considerable dialectic skill that the concept of probability used in statistical science is suspect and should be replaced by a new synthesis of observation and remark, constantly modified in the light of experiment and experience. For example, the classical theorist, if red came up nineteen times running at roulette, would still assume that the twentieth winner might equally well be red or black. The punter, thinking of the maturity of chances, would say that black is 'bound to come up' next time, but Mr Spencer Brown suggests that the common-sense conclusion of the philosopher would be that the board is biased in favour of red and that that colour should be backed.

Another popular concept also troubles him. The essence of randomness is assumed to be the absence of pattern, but he maintains that it is a mathematical contradiction to say that a series has no pattern; the most that can be said is that it does not contain a pattern that anyone is likely to look for. Any series, if protracted sufficiently, will produce the unexpected occasionally. If protracted to infinity, it will produce the impossible.

Mr Spencer Brown scorns the attempts of psychical research workers to match such mathematical happenings with irrational explanations and he is, of course, right. The short truth is that there are no laws of chance. If there were, chance could be related to certainty and the gambling industry would go bankrupt.

¹ *The Fascination of Numbers*. Methuen & Co Ltd, London. 15s net.

² *Challenge to Chance*. Arco Publications Ltd, London. 21s net.

³ *Probability and Scientific Inference*. Longmans, Green & Co Ltd, London. 15s net.

REVOCATION OF PROVISIONS IN SETTLEMENTS

EFFECT OF HOUSE OF LORDS RULINGS

by T. J. SOPHIAN

SECTION 404 of the Income Tax Act, 1952, which replaces the provisions of Section 38 of the Finance Act, 1938, is aimed at tax avoidance through the medium of powers of revocation in settlements. Subsection (1) of that section deals with the case of covenants for the payment of annuities, while subsection (2) deals with settlements by way of transfers of capital to trustees.

Recently the Courts have been called upon to construe the revocation provisions in these sections, and two of the cases have reached the House of Lords (*C.I.R. v. Kenmare* and *C.I.R. v. Saunders*).¹

The material words, which are common to both subsections and the construction of which was in issue, were:

'if and so long as the terms of any settlement are such that any person, has or may have power, whether immediately or in the future, and whether with or without the consent of any other person, to revoke or otherwise determine the settlement or any provision thereof'.

In such circumstances, the trust income will be deemed to be the income of the settlor, if the other conditions are present, such as the cesser of the annual payments (subsection (1)), or the beneficial entitlement of the settlor to any part of the trust capital or income (subsection (2)).

The *Kenmare* Case

To deal firstly with the *Kenmare* case. The settlor, who was resident abroad, executed a foreign settlement which accordingly was not governed by the law of the United Kingdom, under which United Kingdom securities were transferred to trustees. Under the terms of the settlement, the trustees had the power to declare that any part of the trust funds up to an amount of £60,000, in any three years, was to be held in trust for the settlor, absolutely. The settlement accordingly was a revocable settlement which, had it been a United Kingdom settlement, would have come within the deeming provisions of subsection (2) of Section 404 of the Income Tax Act, 1952. The question in issue was whether subsection (2) could have, as it were, extra territorial effect, so as to extend to a foreign settlement, such as

the settlement in this case. The House of Lords, affirming the judgment of the Court of Appeal, held that the settlement was within the ambit of Section 404 (2), and that the trust income was to be deemed to be the income of the settlor notwithstanding that she was a foreign resident and the settlement was a foreign settlement.

When the powers of the trustees in this case are analysed, it would appear that they had the power to withdraw the whole of the trust capital. If there was such complete withdrawal of the capital, there would be nothing further on which the trusts could operate, with the result that the settlement would in effect be completely determined by the trustees.

In other words, the effect of the settlement was to confer on the trustees the power to *determine* (not *revoke*), not only the *settlement*, but also the *provisions* thereof. What the *Kenmare* case therefore has decided is that however foreign, the settlement or the *residence of the settlor*, or the *residence of the beneficiary*, if United Kingdom securities are comprised in the trust capital of the settlement, the form of the settlement must be such as to exclude any power of revocation or determination of the kind referred to in subsection (2) of Section 404, if the deeming provisions of the subsection are to be avoided.

The *Saunders* Case

Whereas the taxpayer failed in the *Kenmare* case, an opposite result ensued in the *Saunders* case. In this case the settlor had transferred £100 to trustees of the settlement. Later he transferred an additional sum of £25,000. Under the terms of the settlement, the trustees had power to withdraw the trust capital and to pay it to, or apply it for the benefit of, certain classes of beneficiaries, among whom the wife of the settlor was included. There was an overriding restriction on the power of withdrawal, in that the trust capital was never to be reduced to below £100. The question arose whether the trustees had the power to determine a *provision* of the settlement.

The expression 'provision' in this context may mean either a benefit conferred under the settlement, or on the other hand a written clause in the deed of settlement. The House of Lords, affirming the view of the Court of Appeal, preferred the latter meaning. In other words, both sub-

¹ Reported in *The Accountant* of August 3rd, 1957, at page 129.

sections (1) and (2), in referring to the power to revoke or otherwise determine 'any provision' of the settlement, were referring to a written clause in the document.

In the *Saunders* case, there was no question of determination of the settlement as a whole, since there would always be at least £100 left to constitute the trust capital. In this respect the *Saunders* case may usefully be contrasted with the *Kenmare* case, since in the latter the power of withdrawal extended to the whole of the trust capital. According to the above interpretation given by the House of Lords to the word 'provision', the power to revoke in the *Saunders* case did not relate to any written clause in the trust deed, so that the settlement was not caught by subsection (2) and the deeming of the income to be the income of the settlor did not arise.

Alternative Meaning of 'Provision'

The Court in the *Saunders* case in effect gave the word 'provision' in subsections (1) and (2) of Section 38 of the Finance Act, 1938 (now Section 404 of the Income Tax Act, 1952), the alternative meaning to that given by the House of Lords in *In re Earl of Berkeley* (25 A.T.C. 209; [1946] 2 A.E.R. 154) to the word, in the context of Section 25 (1) of the Finance Act, 1941 (Section 486 of the Income Tax Act, 1952). This Section 25 was aimed at lessening the burden on settlors who had entered into tax-free covenants, and who but for the alteration effected by Section 25 would have found themselves in the unanticipated position of having to make very much larger payments under their covenants, because of the steep increase in the rate of tax. That section accordingly reduced the rate of tax to be applied in determining the gross amount payable under 'any provision, however worded, for the payment of a stated amount, free of tax'.

It was held in this case that 'provision' in this context meant the benefit conferred, i.e. the result produced by the written (or oral) words conferring the benefit. It did not mean the actual words expressing or creating the benefit. This construction, indeed, naturally follows from the context of Section 25, since 'provision' is coupled there with the word 'contained', 'made' and 'varied' appearing respectively in paragraphs (a), (b) and (c) of Section 25 (1) of the Finance Act, 1941.

As far as subsections (1) and (2) of Section 404 of the Income Tax Act, 1952, are concerned, on the other hand, 'provision' means the written

clause of the settlement, and not the 'benefit' conferred. As Lord Justice Singleton put it in the *Saunders* case in the Court of Appeal, a person who is given power to revoke a settlement or any provision thereof may do so by a document in writing. If he is also given the power to determine the settlement or any provision thereof, one way in which he can do that is by taking away the whole of the settled fund or the whole of the settled fund available for the purpose of the particular provision. That would be a determination. The power to pay out or withdraw a part on the other hand of a capital fund is not a determination of the settlement or of any provision thereof, since the balance still remains subject to the trusts of the settlement.

Again, as Viscount Simonds pointed out in the House of Lords, 'revoke' did not include partial revocation and 'determine' did not include partial determination.

The *Saunders* case, therefore, indicates a means of avoiding to some extent the prohibition in subsection (2). As long as a minimum sum is always to be left as part of the trust capital, it is open to the settlor to confer a power on the trustees to pay out the balance either to himself or to his wife without incurring the deeming penalty of the subsection. The decision in the *Saunders* case, however, as was to be expected, was not reached unanimously and the case itself displays once more the niceties of the language employed in Finance Acts in particular.

Postponement of Operation of Power of Revocation

In addition to the *Kenmare* and *Saunders* cases, attention may usefully be drawn to the case of *C.I.R. v. Nicolson and Bartlett* (34 T.C. 354). This case deals with the effect of a postponement of a power of revocation until after the expiry of the minimum six-year period, during which covenants must operate so as to avoid the deeming provision of Section 392 of the Income Tax Act, 1952.

In this case the deed which was dated March 27th, 1943, provided for the payment of monthly sums, the first of which fell due on April 1st, 1943, although it was stated to have accrued from April 6th, 1942. The settlor had a power of revocation, exercisable after the expiry of seven years from the date of the deed (March 27th, 1943) on February 28th, 1950. A supplemental deed was executed, under which the power of revocation was not to be exercisable until after March 27th, 1953. The Revenue contended that the payments falling due on and after March

31st, 1950, were caught by Section 404 (1) of the Income Tax Act, 1952. This contention was accepted by the Court. The grounds of this decision appear to be as follows:

In order that Section 404 (1) (a) of the Income Tax Act, 1952, should operate there must be in the same settlement, (1) the power to revoke; (2) the obligation to make the annual payments; and (3) the restriction on exercise of the power. The settlement in the above case was consti-

tuted by the deeds of March 27th, 1943, and February 28th, 1950, the settlement accordingly being a compound settlement, under which the *first* payment became due in March 1950. The period of irrevocability, however, under this new compound settlement was from February 28th, 1950 (the date of the settlement), until March 1953, and was therefore less than six years. Accordingly the settlement fell within Section 404 (1).

VISUAL MULTIPLICATION

by FRED T. NEELY

THE superb mixture of mystery and simplicity which is the arabic system of notation unfolds a rhythmic witchery of endless wonders to those in tune with its language. In its matchless dictionary of skills, seldom taught and nine-tenths forgotten, many magic rules can be found by those who chance a glimpse at its fascinating pages.

A great number of amazing short cuts furnish quick aid to those workers who live constantly among the arabic digits. One of these affords an instant mental multiplication of two digit numbers where the digits in the tens column of the multiplicand and multiplier are identical.

A Simple Rule

In one of the easiest of all rules to remember, simply make a mental transfer of the digits in the units column from the multiplier to the multiplicand. The multiplier will thus always end in zero. The product of the adjusted factors plus the products of the digits in the units column as originally written is equal to the product of the original factors, thus:

$$\begin{aligned} 11 \times 11 &= (12 \times 10) + 1 = 121 \\ 21 \times 21 &= (22 \times 20) + 1 = 441 \\ 31 \times 31 &= (32 \times 30) + 1 = 961 \\ 41 \times 41 &= (42 \times 40) + 1 = 1,681 \\ 51 \times 51 &= (52 \times 50) + 1 = 2,601 \end{aligned}$$

With this rule, 12 times 12 is simply 10 times 14 mentally written as 140 plus 4 (2 multiplied by 2) or 144.

Look at the way 12 is multiplied by the other digit numbers from 11 to 19 inclusive:

$$\begin{aligned} 12 \times 11 &= (13 \times 10) + 2 = 132 \\ 12 \times 12 &= (14 \times 10) + 4 = 144 \\ 12 \times 13 &= (15 \times 10) + 6 = 156 \\ 12 \times 14 &= (16 \times 10) + 8 = 168 \\ 12 \times 15 &= (17 \times 10) + 10 = 180 \\ 12 \times 16 &= (18 \times 10) + 12 = 192 \end{aligned}$$

$$\begin{aligned} 12 \times 17 &= (19 \times 10) + 14 = 204 \\ 12 \times 18 &= (20 \times 10) + 16 = 216 \\ 12 \times 19 &= (21 \times 10) + 18 = 228 \end{aligned}$$

The incredible drama of arabic numbers seems to have fallen into a strange place of neglect in many areas of teaching. But much of rapid calculation's useful and stimulating skill can be acquired in a short period of self-coaching. Students find numbers ending in 5 particularly adapted to lazy calculations. Some illustrations in which the final 5 features in substituted computations are shown below:

$$\begin{aligned} 11 \times 14 &= (15 \times 10) + 4 = 154 \\ 21 \times 24 &= (25 \times 20) + 4 = 504 \\ 31 \times 34 &= (35 \times 30) + 4 = 1,054 \\ 12 \times 13 &= (15 \times 10) + 6 = 156 \\ 22 \times 23 &= (25 \times 20) + 6 = 506 \\ 32 \times 33 &= (35 \times 30) + 6 = 1,056 \end{aligned}$$

From the amateur to the adept explorer into the ways of rapid calculation, there is a particular enjoyment in the multiplication of substituted numbers when both of them end in zero. This occurs when the unit digits of the two original factors are 1 and 9, 2 and 8, 3 and 7, 4 and 6, and 5 and 5. Anyone whose daily work requires constant contact with calculations will find that the helpfulness of this old arabic rule occurs with a considerable degree of frequency. Examples of these substituted calculations are shown below:

$$\begin{aligned} 11 \times 19 &= (20 \times 10) + 9 = 209 \\ 12 \times 18 &= (20 \times 10) + 16 = 216 \\ 13 \times 17 &= (20 \times 10) + 21 = 221 \\ 14 \times 16 &= (20 \times 10) + 24 = 224 \\ 15 \times 15 &= (20 \times 10) + 25 = 225 \end{aligned}$$

The symmetry of arabic calculations in their varied and unforgettable sequences is graphically illustrated through one step upward in the digit of the tens column as listed below. Note that the products shown - as in the illustration above -

follow the same orderly pattern that leaps to a familiar mental recognition:

$$\begin{aligned} 21 \times 29 &= (30 \times 20) + 9 = 609 \\ 22 \times 28 &= (30 \times 20) + 16 = 616 \\ 23 \times 27 &= (30 \times 20) + 21 = 621 \\ 24 \times 26 &= (30 \times 20) + 24 = 624 \\ 25 \times 25 &= (30 \times 20) + 25 = 625 \end{aligned}$$

The application of this rule in the illustration below outlines the methodical patterns that devotees of rapid calculation may find in unexpected moments of their rambles into the fairyland that is arabic:

$$\begin{aligned} 31 \times 39 &= (40 \times 30) + 9 = 1,209 \\ 41 \times 49 &= (50 \times 40) + 9 = 2,009 \\ 51 \times 59 &= (60 \times 50) + 9 = 3,009 \\ 61 \times 69 &= (70 \times 60) + 9 = 4,209 \\ 71 \times 79 &= (80 \times 70) + 9 = 5,009 \\ 81 \times 89 &= (90 \times 80) + 9 = 7,209 \\ 91 \times 99 &= (100 \times 90) + 9 = 9,009 \end{aligned}$$

Students who wish to build their own charts can expand the ones given here indefinitely. In the chart immediately above, if the unit digits 1 and 9 or the factors were changed to 2 and 8, 3 and 7, 4 and 6, and 5 and 5, the final 09 of the products in the illustration would change to 16, 21, 24, and 25 respectively.

Analysis of the Rule

A new student may find better understanding through an analysis of the rule. A little practice in analytical multiplication as shown below should give a clear perception of the behaviour of numbers behind the formation of the rule. Multiplying 15×15 and noting that $15 = 10 + 5$, we have:

$$\begin{array}{r} 10 + 5 \times 15 \\ 10 + 5 \times 15 \\ \hline 50 + 25 \quad 75 \\ 100 + 50 \quad 150 \\ \hline 100 + 100 + 25 \quad 225 \end{array}$$

It is axiomatic that when a number is multiplied by twice a number half its size, it is equivalent to multiplying by itself once. It is self-evident then that the multiplication of 20 by 10 will give a product of identical value to the 100 plus 100 of the computation above.

In a similar way, multiply 12 by 12:

$$\begin{array}{r} 12 = 10 + 2 \\ 10 + 2 \times 12 \\ 10 + 2 \times 12 \\ \hline 20 + 4 \quad 24 \\ 100 + 20 \quad 120 \\ \hline 100 + 40 + 4 \quad 144 \end{array}$$

It is obvious that the 100 plus 40 of the product is equivalent to 14 multiplied by 10, the substituted factors formed by giving the unit digits of the multiplier to the multiplicand.

Extension of the Rule

Enthusiasts who are attracted by the utility and artistry of this rule may extend their useful skill beyond the restricted limit of two digit numbers. Observe the similar patterns in the multiplication of two- and three-digit combinations below. The emerging pattern follows the rule of giving the unit digit of the multiplier to the multiplicand in the manner previously explained.

$$\begin{aligned} 12 \times 11 &= 132. & 111 \times 119 &= 13,209 \\ & & 112 \times 118 &= 13,216 \\ & & 113 \times 117 &= 13,221 \\ & & 114 \times 116 &= 13,224 \\ & & 115 \times 115 &= 13,225 \\ 13 \times 12 &= 156. & 121 \times 129 &= 15,609 \\ & & 122 \times 128 &= 15,616 \\ & & 123 \times 127 &= 15,621 \\ & & 124 \times 126 &= 15,624 \\ & & 125 \times 125 &= 15,625 \end{aligned}$$

Actually in the literal operation of this rule, 130 is multiplied by 120, giving a product of 15,600 to which the product of the units is added. Experimentation shows, however, that the user of the rule – if he knows his multiplication table to 20 – can recognize and copy the product as easily as he would write the name of any five-letter word in a sentence he is using. 997 times 993 would thus be an easy mental calculation. Giving the unit digits of the multiplier to the multiplicand, the product of 1,000 by 990 is 990,000; adding 3 times 7 gives 990,021. Since the final two digits are known by users of the rule to be 21, the final zeros of the multiplicand and the multiplier are dropped by nimble calculators – 100 multiplied by 99 gives 9,900 to which the final 21 follows horizontally on the line, giving 990,021. Note the follow through of the methodical patterns in the grouping below:

$$\begin{aligned} 999 \times 991 &= 990,009 \\ 998 \times 992 &= 990,016 \\ 997 \times 993 &= 990,021 \\ 996 \times 994 &= 990,024 \\ 995 \times 995 &= 990,025 \end{aligned}$$

Since Adam first looked up to the stars glowing in the night sky over Eden, all men must have tried to count – that they have not learned to do this better is one of time's strangest riddles. For the easiest of all languages to learn, the vocabulary of numbers, in simple and changeless patterns, offers to those who think a magic way to skills of everyday usefulness.

THE STATUS OF INTERNAL AUDITING IN AMERICA

by W. R. DAVIES, C.P.A.

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President, The Institute of Internal Auditors, New York

I BELIEVE that in so far as the development of internal auditing as a profession in the United States is concerned, the organization of The Institute of Internal Auditors in 1941 marked the beginning of its recognition as such. However, its greatest progress has been made since the end of the Second World War. This progress has been greatly stimulated by the great expansion of business activity in the United States and Canada since 1945.

The favourable environment for progress of internal auditing has been composed jointly of business prosperity and expansion, and the programme of professional improvement of The Institute of Internal Auditors during the past ten years. On the one hand, business expansion has brought about the opportunity for internal auditors to extend the audit programme into operating phases of business, of which I will have more to say later. On the other hand, The Institute of Internal Auditors has provided professional guidance for its members during this period.

Extending the Scope of the Internal Auditor

The desirability of extending the scope of internal auditing into the so-called field of management auditing has been stressed constantly. The revised 'Statement of the responsibilities of the internal auditor',¹ which was approved by the board of directors at Los Angeles last May, gives recognition to what had already happened in the audit programmes of some companies, namely, the specific inclusion of operating matters as proper subjects of audit, as distinguished from the original 1947 statement which emphasized that accounting and financial matters constituted the primary role of the internal auditor, whereas his role was merely permissive in respect to matters of an operating nature.

It is not possible for me at this time to inform you how widespread is the use of operational auditing today in America. Suffice it to say that a questionnaire was submitted to all members of the Institute some time ago, the results of which when determined

may answer this question. However, I believe that I would be safe in saying that much improvement still remains to be made. It is my impression that the best progress has been made in the largest companies and in certain medium-sized companies.

By this I do not mean that *all* large companies have permitted their internal audit staffs to pro-

gramme audits of an operating nature. Certain outstanding examples, although few, easily come to mind where there is no internal audit programme even in the old restricted accounting and financial sense, to say nothing of the modern concept of operational auditing. It is indeed interesting to conjecture why this is so. You may be sure that there is no single reason to account for this failure on the part of apparently successful business organizations to keep abreast of the times.

Let us try to explain these cases by looking at the reasons why other large companies *have* adopted internal auditing as a management tool. I think that you will invariably find that top management has been sold on the advantages by someone who is in a position to do so. In the United States, there is no one in a better position to do this



Mr W. R. Davies

than the firm of certified public accountants, which annually certifies to the financial statements. Of course, when the public accountant initiates such a suggestion, the company management must be receptive in order for action to be taken. There are a number of possible reasons why management may be receptive at any given time. They may have compared notes with the management of another company which has successfully installed an internal audit group. It may be that one individual on the management team might become enthusiastic enough to try to convince his fellow executives. At any rate, I am convinced that timing has a great deal to do with whether action is taken or not.

There are a number of outstanding examples that I know of in the United States, of medium-sized companies that have successfully installed very good internal audit programmes. In addition to the reasons already given for large companies, I rather think

¹ Reproduced elsewhere in this issue.

that these smaller companies have adopted such programmes mainly because of the technical difficulties of their productive processes. This is especially true of comparatively new companies operating in new fields of aircraft and electronic equipment production. The managements of such companies necessarily must be aware of the best techniques, not only in production and research, but also in the field of general management control. These companies being of recent origin and development do not suffer from the inertia of old management concepts, but are rather in the position of being able to select the most advanced management techniques.

A Well-balanced Programme

Let us now look briefly at the present situation from a more pleasant 'coign of vantage', as Shakespeare would say. I would refer to the best practice as it exists today in America, as I understand it. To begin with, it is my opinion that a good audit programme must be a well-balanced programme, with sufficient coverage given to the accounting and financial aspects of the business, as well as to the operating departments. And having made a proper bow in the direction of the time-honoured aspects of book-keeping, I shall not bore you with a further discussion of them, but will confine myself to the newer field of operational auditing.

Much has been written and many speeches given in recent years concerning this new development. Some call it 'management auditing', others refer to it as 'auditing the operations'. In my opinion, either one will do, so long as we mean to refer to a company-wide audit programme that aims to provide a complete inter-departmental service to management. This means to me that our detailed annual audit programme should be composed of individual audit assignments that reach into all departments of the business, besides the accounting and treasury departments, such as production, sales, purchasing, engineering and transportation. As might be expected, when you do this, you will soon come to realize that there are many points of connection between these individual audits, just as there is bound to be points of contact between the departments themselves. Thus, through his audit programme, the auditor comes to understand the inter-departmental relationships and, in his work, can cross over departmental lines. The result is that his audit recommendations are not restricted to the point of view of one department, but rather are made from the point of view of the overall company profit picture.

Avenues of Approach

This is the general approach that is being followed by the best practice in North America today. Now there is more than one avenue whereby this general approach can be accomplished. Which one is selected may depend upon the type of business and/or the form of its organization. The specific problems of a

business may decide the initial audit emphasis which may later lead to expansion of the audit programme to related fields. For example, and strictly from a historical development standpoint, we may find an audit staff of a given company embarking on audit or operations via the sales department's interest in pricing problems. This might very well begin in a modest way by the auditor's reviewing the arithmetical accuracy of invoice pricing. Later, his audit work programme might very well extend into the establishment of prices, which is a sales department prerogative, and also into the varieties of product as related to prices, which is in the area of the production department's responsibility.

Another avenue of approach into operational auditing which might offer itself on an opportune basis, is where a given company embarks on a comprehensive and long-range programme of plant expansion. Here the auditor may be required at the outset to audit the charges of contractors as the construction work progresses. One thing leads to another, however, and pretty soon we find him reviewing the policy, and compliance with the prescribed procedures set up by management. This will cover the approval of the expenditure in respect to the items of plant and equipment, which in turn have the technical approval of the engineering department, and finally the process of procurement by the purchasing department. After the completion of the construction work, and the new plant or equipment is in operation, the auditor follows up to see that the forecasted financial change, as it is reflected by cost reduction and/or profit improvement, has been realized. This, of course, requires that he evaluate the accuracy of the standard costs that were originally forecasted in the financial change statement. In this example, it is evident that the auditor's work has delved into the responsibilities of the accounting, engineering, purchasing and production departments.

Still another avenue of approach into operational auditing might be in the review of production planning. Perhaps the auditor has prepared himself for this adventure by having previously made basic functional audits involving inventory control, physical inventory observations and reconciliations, payroll and incentive payments, purchasing and procurement, etc. In this process he has had the opportunity of observing the production departments of the plants in operation. Therefore, if you will pardon my using a piece of American slang, he is 'warmed up' to intelligently review the day-to-day scheduling of productive capacity involving, as it does, the usage of materials, the usage of labour, the usage of equipment, the planning of product mix, and the economic planning of production orders and the ultimate timely and efficient delivery of product to customers.

As you can see from these few examples, the evolution from a sound functional audit programme, whose original emphasis was accounting and financial, to a management type inter-departmental audit programme, is a gradual one of a very practical nature

which cannot occur overnight. It involves such basic considerations as:

- (1) training the auditors to gradually assume more and more responsibility as their knowledge of the business increases, which
- (2) makes it easier to convince the various department heads that a capable auditor can be of helpful service to them, which in turn
- (3) convinces top management, whose backing was necessary from the start and all along the way, that they have made no mistake in supporting the internal audit programme.

Now obviously it would be impossible for me to say that this is always the way that audit divisions of North American companies graduate into the broad audit scope which I have briefly described. However, I can say that it is borne out by my own experience and that of many of my fellow members of the Institute. Certainly we have not reached the point of professional development where it would be possible for some genius to step into a company and overnight organize a complete management audit programme on a going basis.

Electric Computers and the Internal Auditor

Now I would like to make a few brief remarks concerning a current development which is receiving a great deal of attention in both European and American accounting circles. There is no doubt in my mind that the use of electronic data-processing equipment is already exerting a significant impact upon clerical methods and clerical cost control, and that this effect will be with us on an ever-increasing basis in the immediate future. What is of even more interest to us as internal auditors is the extent to which these new developments will affect our auditing methods and procedures.

We have already come to grips with electronic installations, although it is fair to say that they represent just a beginning. But we have seen enough already to be convinced that there is nothing for us as auditors to be afraid of. This conviction has been very well expressed by E. C. R. Williams, A.C.W.A., and D. J. Bailey, B.A., in their article 'Application of data-processing equipment in the office—some internal audit implications', which originally appeared in *The Accountant*¹ and later was reprinted in the June issue of *The Internal Auditor*. They stated that the auditor 'need not be an expert in mathematics, physics, or electronic techniques'; nor should they stand in excessive awe of the accomplishments of electronic data-processing equipment, or be confused by the jargon used by equipment experts. I agree with them that

'it behoves the auditor to educate himself in the stage where he is familiar enough with the techniques, designs and types of electronic data-processing equipment and the way in which they are programmed, to enable him to recognize their

potentialities and their limitations without fear, but, above all, without prejudice'.

Education and Training in America

And now I am sure that you would agree that any picture which I might present to you of the American scene would not be complete without saying something about our educational and training requirements. It is rather widely accepted that an internal auditor should be a university graduate, and preferably with a major in accounting. In addition to that, there is a definite trend toward further education, such as a master's degree in business administration. However, the day-class students are not receiving very much information concerning internal auditing from their teachers of accounting or auditing. Much more has been done in this respect in university evening classes devoted entirely to the subject of internal auditing.

From my own experience, I would say that up to 20 per cent of internal audit personnel comes to us with from one to five years' public accounting experience. These men are generally well grounded in auditing methods and procedures and have a good accounting background. It is desirable, however, that they quickly adapt themselves to the business man's approach of the internal auditor.

For the most part, however, new recruits for internal auditing come directly from school. The training programmes of the respective companies will largely decide their orientation. This may be comprised of from one to two years of rotational training, whereby the recruit not only is introduced to all of the company's accounting processes but also becomes familiar with the basic operations. If at this point the trainee decides to go into the internal auditing department, he is immediately subjected to an on-the-job training programme of a progressive nature, which may or may not be supplemented with attendance at an evening class in internal auditing.

The Internal Auditor's Place in the Company

Another aspect of our subject, which I am sure will be of interest to you, is in respect to the place of the internal audit group in the company organization. Here, again, the picture is necessarily a rather mixed one. In the larger or largest companies, it is not uncommon to find the head of the audit department reporting to a variety of top management officials. Most frequently this will be the comptroller or vice-president-comptroller. In some cases it will be to an executive vice-president (accounting), a chairman of the finance committee, a president, or a chairman of the board of directors. In the least desirable cases, you will find the audit supervisor reporting to an assistant comptroller, or to a comptroller who does not enjoy top management ranking in his company.

The matter of *whom do you report to* is of primary importance because it has a great deal to do with the breadth of audit scope that is permitted, and the

¹ Issue dated November 3rd, 1956.

manner in which auditing recommendations are accepted and acted upon. There is no substitute for the support which an interested and influential top executive or group of executives can give to an audit programme.

Internal Auditors' Relationship with Public Accountants

Now there is one other subject which I feel obliged to cover in view of the emphasis which it has received in all five papers which have been submitted to the Seventh International Congress of Accountants. I refer to the relationship between independent public accountants and internal auditors. I have already indicated that the public accountant has often played an important part in having companies establish internal auditing departments. They have had both professional and selfish reasons for so recommending. In the first place, they are interested in maintaining the professional quality of their work, and in their certifications of the financial statements of the largest companies, this is greatly assisted by such companies having a well-qualified internal audit staff which can provide an intensive interdepartmental audit coverage for which the public accountant does not have sufficient audit time to accomplish. In making this statement, I am, of course, referring to only that portion of the internal audit programme that has to do with the book-keeping function of the accounting and treasury departments.

However, in respect to that part of the internal audit programme which is concerned with the detailed operations of the business, the public accountant would have little or no ability to influence the actual

development of the internal audit programme. In this field, the company's internal auditor is the specialist in his own right by virtue of his day-to-day knowledge of the business, and because in this field he is directly serving the active operating management of the company. Therefore, I believe that in the presence of a broad internal audit programme, which integrates the auditing of the accounting and financial departments with the audit of the operating departments, the internal audit head must assume the responsibility of developing his own audit programme in the manner in which management approves. But in so doing, he should co-operate with the company's public accountants in such a manner that the best annual audit is possible at a reasonable cost.

This co-operation can and should be a 'two-way' street. The internal auditor, on the one hand, should furnish the public accountant with copies of all of his audit reports and access if necessary to his working papers. On the other hand, occasions will arise when the internal auditor can benefit from access to the public accountant's working papers and/or interim reports. This is especially true in such cases as the confirmation of accounts receivable and the observation and verification of physical inventories, where it is common to find the public accountants and the internal auditors dividing up the necessary audit coverage.

I would conclude by saying that, although the emphasis of the internal and external auditor varies, co-operation and co-ordination are necessary and should be accomplished in such a fashion that each maintains his independence from the other.

Weekly Notes

The Cheques Act

In our issue of December 14th we reproduced an excerpt from *The Times* report of proceedings in the House of Lords on December 10th, when some questions were raised – and answered – on the operation of the Cheques Act. We also reproduced in that issue, a letter from a correspondent which had appeared in *The Times* on the morning of the Lords debate. The burden of both the letter and the questions in the Lords was that the growing practice among tradesmen not to give stamped receipts consequent upon the Cheques Act coming into force was likely to cause confusion and create difficulties for auditors. *The Times* has since published further letters from correspondents refuting these views and on Tuesday of last week, a second leading article in its columns pointed out that, given co-operation among traders, fewer receipts could do nothing but good for British business.

We are pleased to note that the precautionary measures outlined in *The Times* leader are sub-

stantially those envisaged in our leading article of November 23rd entitled 'The Auditor and the Cheques Act'. It cannot be too strongly impressed upon clients by their auditors that although the introduction of the Cheques Act may have altered certain procedures, it has in no way affected fundamental principles, and that there is no difficulty in its operation which good organization cannot turn to better account.

Balancing Charge on Aircraft

A case which illustrates the difficulty of establishing, sometimes, when a trade is 'permanently discontinued' and also the curious lacuna in the pre-1952 legislation about balancing allowances and charges was decided last week in the High Court (*Bennett v. Rowse* (*The Times*, December 18th, 1957)).

Air Vice-Marshal Bennett carried on an air charter business until 1950. On January 31st in that year he wrote to the secretary of a company to which his aircraft had been hired and gave notice to deter-

mine the hiring agreement, saying he had decided to discontinue the business. On March 12th, 1950, one of his aircraft crashed and he ceased to hire out aircraft. He received £38,000 insurance moneys for the loss and the Revenue made a balancing charge of £21,000, against which he appealed.

The Special Commissioners dismissed the appeal on the ground that the trade did not cease until after the destruction of the aircraft; and the High Court has now held that there was evidence to support that decision. Had the appellant succeeded in his contention the charge could not have been sustained, for the events in question took place before July 1952, when the law was changed by the Finance Act, 1952.

Sale of Right to Receive Income

An attempt by the Inland Revenue to tax as remuneration the proceeds of sale of the right to receive income was defeated in the High Court in *Bradbury v. Arnold* (*The Times*, December 12th, 1957). Mr Tom Arnold owned a controlling interest in Tom Arnold Ltd, which was producing an ice show at the Stoll Theatre in October 1947.

On September 6th, 1947, a Major Martineau paid him £9,000, and the company £1,000, on terms set out in two letters of the same date. Major Martineau wrote: 'In consideration of your introducing to me, and giving me the opportunity of acquiring a half-interest in the profits, which may be made by the ice show to be produced at the Stoll Theatre . . . I agree to pay you the sum of £9,000. . . . ' Mr Arnold, on behalf of the company, replied in writing, saying, 'You will have one-half interest in the profits of the ice review.'

The General Commissioners discharged the assessment which was made on the £9,000 and the Crown appealed. Upjohn, J., held that Mr Arnold had not undertaken to provide services; and he dismissed the Crown's appeal.

Trusts for Recreation

The Recreational Charities Bill, which has been introduced by the Government and has had a first reading in the House of Lords, seeks to remove the uncertainty as to the status of trusts for recreation which has existed since the House, in *C.I.R. v. Baddeley* ([1955] A.C. 572; [1955] 1 All E.R. 525) - which concerned a sports ground and other premises for the benefit of Methodists in West Ham and Leyton - held that the moral, social and physical well-being of the community or any part of it, laudable though it was, yet was not within the realm of charity at English law; so that a trust for that purpose did not qualify for relief from income tax and reduction of stamp duty. This decision at once called in question whether such institutions as boys' and old people's clubs, village halls and other institutions having as their object the social and physical well-being of the community were charitable.

The Bill does not so much make new law as declare the principles on which the provision of

facilities for recreation can be considered charitable. The effect of clause 1 is that, in order that an institution may pass the test of public benefit, its facilities must be provided with the object of improving the conditions of life for the persons for whom the facilities are primarily intended, and either those persons must have need of such facilities by reason of their youth, age, infirmity or disablement, poverty or social and economic circumstances, or the facilities must be available to the members or female members of the public at large.

The reference to female members of the public is obviously intended to cover the case of women's institutes, which are amongst those institutions, the status of which is at present in doubt; and in fact women's institutes are, with village halls and community centres, expressly mentioned later in the clause in question.

The status of miners' welfare trusts is expressly dealt with by clause 2 and the doubt whether they are charitable, arising from the question whether or not persons in common employment can form a sufficient class of the public to satisfy the test of public benefit, is removed.

Clauses 1 and 2 operate retrospectively to validate what has been done in the past on the then accepted view of the law, but clause 3 contains savings and exceptions which in particular safeguard past transactions entered into on the contrary view.

Export Trade Bid

A concentrated sales effort aimed not only at recapturing Middle East business lost following the Suez crisis, but at the doubling of turnover in the area, was recently held in Beirut by The Brush Group Ltd.

The conference was presided over by Mr Ian T. Morrow, C.A., F.C.W.A., managing director of the Group, and Immediate Past President of The Institute of Cost and Works Accountants. Mr Morrow himself conceived the idea that it would be valuable to take out to the territories concerned the managing directors of his seven production units, so that they could meet agents from seventeen different Middle East countries and give them personal briefing on the products and policies of his Group.

The conference proved a resounding success, and quite apart from half a million pounds' worth of orders for Brush equipment which directly resulted from it, the Group expects to put up its annual sales in the Middle East to £8 million by the end of next year.

Commenting on the conference, Mr Morrow said that apart from two countries - Saudi Arabia and Syria - where it is difficult for political reasons to give credit, they are meeting any terms their Continental competitors can give with the help of the Export Credits Guarantee Department; thus finance is not the major problem. The economics of the Middle East countries are reasonably sound with the exception of Egypt who has overspent.

Arab countries, Mr Morrow stated, obviously

want our goods, but will not pay more for them – as a rule they want British quality but at Continental prices. They have tremendous confidence in British products but it is not possible to ask 20 or 30 per cent more on quality.

Ratification of the Common Market

All six members of the proposed European Common Market (they now call themselves the European Economic Community) have formally deposited documents of ratification of the Treaty of Rome. The participating countries were two days ahead of

schedule in giving formal notice of a ratification. The Common Market thus comes into existence on January 1st.

There will then ensue a year of negotiation on administrative matters concerned with establishing a secretariat and phasing the twelve to fifteen years' programme of tariff disarmament. There have already been discussions on the location for the headquarters of the Community and with this there must now be a series of decisions setting out the various courts and administrative units necessary to make the Treaty of Rome workable.

RESPONSIBILITIES OF THE INTERNAL AUDITOR

The following is a statement which has been issued by The Institute of Internal Auditors, New York. Elsewhere in this issue we reproduce a paper on 'The status of internal auditing in America', by W. R. Davies, C.P.A., President of the Institute, which he presented during a recent visit, to a meeting of the London Chapter of the Institute.

Foreword

In 1947, The Institute of Internal Auditors published for the first time a 'Statement of Responsibilities of the Internal Auditor'. In the foreword to that statement recognition was given to the fact that 'new conditions and needs, and further development in the professional stature of the internal auditor might well warrant in future years some revision of the statement'.

Over the period of ten years since the statement was published, there has been a continuing development of the profession. The Institute, therefore, believes it advisable at this time to issue a revised statement, which shall express the still broader concept of internal auditing, which it holds today.

Nature of Internal Auditing

Internal auditing is an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls.

Objective and Scope of Internal Auditing

The overall objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities, by furnishing them with objective analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor, therefore, should be concerned with any phase of business activity wherein he can be of service to management. The attainment of this overall objective of service to management should involve such activities as:

Reviewing and appraising the soundness, adequacy and application of accounting, financial and operating controls.

Ascertaining the extent of compliance with established policies, plans and procedures.

Ascertaining the extent to which company assets are accounted for, and safeguarded from losses of all kinds.

Ascertaining the reliability of accounting and other data developed within the organization.

Appraising the quality of performance in carrying out assigned responsibilities.

Authority and Responsibility

Internal auditing is a staff function rather than a line function. Therefore the internal auditor does not exercise direct authority over other persons in the organization, whose work he reviews.

The internal auditor should be free to review and appraise policies, plans, procedures, and records; but his review and appraisal does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Independence

Independence is essential to the effectiveness of the internal auditing programme. This independence has two major aspects:

- (1) The organizational status of the internal auditor and the support accorded to him by management are major determinants of the range and value of the services which management will obtain from the internal auditing function. The head of the internal auditing department, therefore, should be responsible to an officer of sufficient rank in the organization as will assure a broad scope of activities, and adequate consideration of and effective action on the findings or recommendations made by him.
- (2) Since complete objectivity is essential to the audit function, internal auditors should not develop and install procedures, prepare records, or engage in any other activity which they normally would be expected to review and appraise.

Finance and Commerce

New issues continue to dominate a stock-market which otherwise reflects continuing economic uncertainty. The highly successful British Petroleum operation will be followed in the New Year by the Royal Dutch/Shell issues which will raise some £140 million. This may entail a heavy withdrawal of funds from existing stocks.

Airfix

Our reprint of an accountants' report from a Statement for Information, which is part of the procedure for obtaining a stock exchange quotation, has revealed an interest in this form of accounting service.

We have, therefore, taken the report of the accountants to Airfix Industries Ltd whose shares have recently been placed on the market. Some readers will know at first hand the company's construction kits for the making of scale models in plastic of cars, aeroplanes, ships, houses, etc.

The company itself was formed in 1933 as The Ceylon Cocoa and Rubber Co (1933) Ltd. In 1955, the undertaking and assets in Ceylon were disposed of by the surrender of 214 acres of land to the local government and by the sale for £9,750 of 304 acres planted with rubber and interplanted with cocoa. At September 1956, net assets amounted to £5,849. Then came the process of using the 'shell' of the company for Airfix.

The name was changed to Airfix Industries Ltd in October last; the memorandum was altered, and the capital reorganized and increased to consist of £120,000 in 4s shares. A month later, the company agreed to purchase the capital of Airfix Products Ltd for £299,550, to be satisfied as to £103,549 12s by the allotment of 517,748 shares and the balance of £196,000 8s in cash; the cash portion being left outstanding as an unsecured liability of the company without interest to be discharged at the directors' discretion as and when the company's resources and the payment of dividends permit.

This formula is one that has been followed a number of times recently and readers will notice how well it is adapted to the treatment of tax problems that now beset the privately-owned company. Of note, also, is the future remuneration of those who have built up the business and the statement gives two contracts for five-year managing directorships at £3,000 p.a. (inclusive of fees) plus 1 per cent per annum commission on combined net profits before tax in excess of £40,000 in any one year; and a five-year general manager's contract at £2,500 per annum (including fees) plus a $\frac{1}{2}$ per cent commission.

Tax Problem

In due course followed the sale of shares to stock-brokers for the purpose of the marketing, the contract being for 139,920 4s shares at 8s 3d each to be paid for within seven days of the grant of permission

to deal and quotation. The shares were placed and a proportion was made available to the public through the market. The prospect offered to the investor was a 30 per cent dividend for 1958.

Setting out the profit prospect, the statement said that it was the policy to write off the cost of moulds (an essential and costly item in the use of thermoplastics) over three years and that the £34,420 at October 1957 compared with £155,157 spent since 1950. Concerning the very substantial rise in profits, it pointed out that the full impetus of the increased range of products only began to be felt in 1956. For that year, sales were approximately 50 per cent up on 1955 and about two and a half times the 1951 figure. Sales for 1957 are expected to be 50 per cent higher than 1956 and the profit at least £195,000.

These statements for information published in the Press as part of the share marketing process can make very interesting reading.

Sirdar and Surtax

No provision has been made for a possible liability to surtax on the company's income, states a note to the balance sheet of Harrap Bros. (Sirdar Woolls) Ltd as at June 30th, 1957. The company was formed in December 1953 as Harrap (Holdings) Ltd, acquiring an operating company from the previous June. Its shares were marketed in May 1954 and the Statement for Information gave assurance that surtax clearances had been obtained up to the end of the last accounting period. Now the directors' report with the accounts to June last states that 'a formal direction has been made that the company's income for the tax year 1954-55 should be deemed to be the income of the members for surtax purposes and notice of appeal has been lodged. The grounds upon which the direction has been made and the grounds of the appeal are highly technical, but the board has been strongly advised by counsel that the company's appeal should be successful. Accordingly, no provision has been made in the accounts for the substantial amount of surtax which would become payable under this direction, and any direction which might be made for any later year if the Revenue's action were to be upheld.'

Mr Frederick Harrap, the chairman, states that the company's advisers consider it is entitled to the freedom from such directions which is afforded to companies, the share capital of which is quoted on a stock exchange and 25 per cent of the equity shares of which are held by members of the public generally.

Shareholders, he continues, will have received assessments to surtax for the year 1954-55 on the proportions of the company's income allocated to their individual shareholdings, since, if the tax became payable, it would in law be collectable from either the company or the shareholders, although in practice it would be paid by the company.

AIRFIX INDUSTRIES LIMITED

ACCOUNTANTS' REPORT.—The following is a copy of a Report received from Messrs Harold Everett, Wreford & Co. Incorporated Accountants who are the Auditors of Airfix and its subsidiaries:

The Directors,

AIRFIX INDUSTRIES LIMITED

21st November, 1957

Gentlemen,

We have examined the audited accounts of Airfix Products Limited for the seven years ten months ended 31st October, 1957, and of its predecessor company for the three years ended 31st December, 1949, and of the wholly-owned subsidiaries for the following periods:

AIRFIX WHOLESALERS LIMITED Nine years seven months from 1st April, 1948, to 31st October, 1957.

PETER PLASTICS LIMITED Two years from 1st January, 1948, to 31st December, 1949 (this company has not traded since 31st December, 1949).

NIKOCRAFT LIMITED One year eleven and two-thirds months from 10th November, 1955, to 31st October, 1957.

1. Profits.—The combined Profits or Losses of all companies referred to above for the periods shown below, arrived at on the basis stated below, were as follows:

Accounting Period	Combined Profit before taxation, depreciation and amounts written off Moulds (1)	Depreciation and amounts written off Moulds (2)	Combined Profit or Loss (3)
	£	£	£
Year ended 31st December, 1947.. ..	35,762	8,621	27,141
Year ended 31st December, 1948.. ..	23,047	8,775	14,272
Year ended 31st December, 1949.. ..	7,512	4,907	2,605
Year ended 31st December, 1950.. ..	15,178	10,047	5,131
Year ended 31st December, 1951.. ..	10,885	13,684	2,799 (loss)
Year ended 31st December, 1952.. ..	24,879	19,577	5,302
Year ended 31st December, 1953.. ..	25,793	21,905	3,888
Year ended 31st December, 1954.. ..	27,482	23,416	4,066
Year ended 31st December, 1955.. ..	28,651	20,242	8,409
Year ended 31st December, 1956.. ..	90,509	25,315	65,194
Ten months ended 31st October, 1957 ..	192,995	22,802	170,193

(a) The figures set out in column 3 above have been arrived at after making such adjustments as in our opinion are appropriate and after charging all working expenses including bank interest, Directors' emoluments, depreciation and amounts written off Moulds as charged in the accounts but before providing for United Kingdom taxation.

(b) Where accounts have been made up for any period not ending on the 31st December in any year apportionments have been made on a time basis.

(c) On the basis of the arrangements operative from 1st November, 1957, the emoluments of the Directors of Airfix Products Limited and its subsidiaries for the ten months ended 31st October, 1957, would have amounted to £13,013 inclusive of the amount payable to Mr. J.A. S. Gray who became a Director of Airfix Products Limited on 1st November, 1957. The corresponding emoluments for such period amounted to £12,878.

2. Net Assets.—The combined Assets and Liabilities of Airfix Products Limited and its subsidiaries based on the audited Balance Sheets of such companies as at 31st October, 1957, were as follows:

	At Directors' valuation 24th May, 1951 and additions at cost	Accumulated Depreciation	Net
	£	£	£
FIXED ASSETS:			
PLANT AND MACHINERY	62,494	29,310	33,184
MOTOR VEHICLES	5,519	3,088	2,431
FURNITURE, FIXTURES AND FITTINGS	5,410	2,167	3,243
	<u>£73,423</u>	<u>£34,565</u>	<u>38,858</u>
PREMIUM PAID ON ACQUISITION OF SHARES OF NIKOCRAFT LIMITED (see Note (iv))			18,430
			<u>57,288</u>
MOULDS AND TOOLS:			
At cost	155,157		
Less: Amounts written off	<u>120,737</u>		
			34,420
CURRENT ASSETS:			
STOCKS AND WORK-IN-PROGRESS, as certified by two Directors	60,679		
SUNDRY DEBTORS (after provision for Doubtful Debts)	80,011		
CASH AT BANKS AND IN HAND	<u>117,943</u>		
		258,633	
CURRENT LIABILITIES:			
TRADE AND SUNDRY CREDITORS	83,999		
BILLS PAYABLE	566		
CURRENT TAXATION, including Income Tax, 1957-58	<u>40,576</u>		
		125,141	
NET CURRENT ASSETS			133,492
NET ASSETS			<u>£225,200</u>
Represented by:			£
ISSUED SHARE CAPITAL			40,000
CAPITAL RESERVES			3,277
PROFIT AND LOSS APPROPRIATION ACCOUNT			106,696
RESERVE FOR FUTURE INCOME TAX, 1958-59			<u>75,227</u>
			<u>£225,200</u>

NOTES.—(i) The Directors of Airfix Products Limited have authorized expenditure in respect of extension to the factory premises totalling £10,000.

(ii) Airfix Products Limited and its subsidiaries have received profits tax non-distribution relief and accordingly a profits tax distribution charge would normally be incurred in the event of a distribution out of reserves or in the event of a repayment of capital.

(iii) Airfix Products Limited recently obtained judgment with costs in its favour in the Court of Appeal in an action for infringement of the copyright of a registered design and an order has been made directing an enquiry as to damages which should result in an addition to the net assets shown above.

(iv) The premium paid on acquisition of Shares of Nikocraft Limited is the excess of the cost of such shares over the net tangible assets of that company at the date of obtaining complete control and represents the cost of the Patent and Registered Designs then owned by that company.

Yours faithfully,

HAROLD EVERETT, WREFORD & CO.

Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Charles Winn Accounts

SIR, - We were glad that you had again decided to reproduce our accounts (December 14th issue) and to comment upon them.

Would you be kind enough to spare me space to deal with the points raised in the last three paragraphs of your comments (page 695)?

I, personally, transposed the accounts of Tube Investments Ltd into the new form in three-quarters of an hour. It was quite simple.

'Money in use, as the basis of assets value used (as shown)' as a definition of 'capital' was incorporated (as an explanatory footnote) to endeavour to make clear - to all readers - just what the figure of so-called 'capital' represented. The word 'capital' has as many different meanings as the word 'profit'. It was not found possible to make clear the precise sense in which the word was used in our accounts except by means of the explanatory phrase used. One cannot even say 'assets value' without qualifying that, as assets (particularly fixed assets) can be valued on different bases. The *real* capital - the *real* money in use - is, of course, normally very much greater than the figure shown in the statement of capital (balance sheet), especially if the fixed assets have not been revalued (as in our case).

We are strongly opposed to the issue of any statement other than the statement of accounts carrying the auditors' report. The form of accounts now used is not designed specifically for our employees (whether shareholders or not): it has been drawn up to meet, if possible, the requirements of *all* who are likely to be interested in the business and the financial aspect of it. It appears to have succeeded in achieving its object. With regard to 'net profit after tax', it is our contention that, strictly speaking, there is no such thing - any more than there are salaries, or wages, after tax. It is an expression that has come into common use, but, in our submission, completely without justification. The profit is the profit (as salaries and wages are the figures before deduction of P.A.Y.E.) and there should be no further figure: only uses of that profit, of which taxation (which is an appropriation of profit) is naturally the first. It should also be remembered that the taxation *paid* (or provided for) in any year is not based on the profits of that year - it is, of course, based on the profits of the year before.

Yours faithfully,

N. K. MOUSLEY, *Chairman*,
Birmingham, 1. CHARLES WINN & CO LTD.

'Pestilential Profit'

SIR, - Perhaps Mr Jackson (December 14th issue) saw in my phrase 'simple cost' for employees more than I intended.

It is not unknown for someone in the works to

get hold of figures for the wages of those on production, more figures for the cost of raw materials in the product, and add them together to make the 'cost'.

He then looks in the sales catalogue (or in a shop window) to find the 'price'.

The difference between the 'cost' and the 'price' is the 'profit', and the 'profit', of course, is what the directors live on!

If readers of *The Accountant* see anything wrong in that argument I hope they may be moved to consider whether some kind of information as to costs might improve the situation.

Yours faithfully,

HENRY SNELL,
Industrial Survey Director,
THE ECONOMIC LEAGUE,
London, SW1.

Civil Service Salaries

SIR, - Referring to your note on the National Union of Students' publication, *Choosing a Career*, on page 620 of your issue dated November 23rd, one cannot help but compare the starting salary of £635 offered by the Civil Service in England with that of Canada, where the latter in, for example, the income tax department, offers holders of a recognized accountancy qualification or a university graduate with three years' accounting experience, \$5,580 per annum (£2,106 at the current exchange rate of \$2.65 (Can.) to the £), rising by \$300 per annum, with ample opportunity for promotion at higher rates of pay.

This, even taking into account the difference in the cost of living, though it must be borne in mind that both direct and indirect taxation are appreciably lower in Canada, represents a considerable difference in remuneration.

Yours faithfully,
Toronto, Canada.

W. R. MUNRO.

Inflation and Replacement Costs

SIR, - It was indeed refreshing to read Mr W. F. F. Bentley's letter published in your issue of November 30th - it was also timely in view of the approach of the annual spate of company reports bemoaning high replacement costs and the inadequate depreciation allowances for tax purposes.

Unfortunately, this theory has been commonly accepted throughout industry for many years and repeated parrot-fashion by numerous company chairmen.

It does not appear to have occurred to a lot of people that during a period of inflation, the ownership of durable assets adequately maintained is somewhat advantageous to the earning of super profits, tending to eliminate further competition, and if a prudent dividend policy is pursued, ample funds become available for gradual replacement of fixed assets.

Yours faithfully,
Liverpool.

A. L. BOYLE.

DINNER IN CARDIFF

South Wales and Monmouthshire Society of Chartered Accountants

The annual dinner of the South Wales and Monmouthshire Society of Chartered Accountants was held at *The Park Hotel*, Cardiff, on December 16th. The Chairman of the Society, Mr Bernard E. Brown, K.St.J., F.C.A., presided, and together with Mr W. H. Lawson, C.B.E., B.A., F.C.A., President of The Institute of Chartered Accountants in England and Wales, received the members and guests.

Among those present were Sir Henry Wilson Smith, K.C.B., K.B.E., chairman of Powell Duffryn Ltd; The Right Reverend Glyn Simon, the Lord Bishop of Llandaff; Alderman Arthur Manley, Deputy Lord Mayor of Cardiff, Mr G. C. Diamond, M.A., and

Sir Frederick Alban, C.B.E., F.S.A.A., F.C.I.S. (*President, Chartered Institute of Secretaries*); Messrs G. T. Cantley (*Chairman, Cardiff Stock Exchange*); C. N. D. Cole (*Editor, Western Mail*); R. W. Cox, F.C.A. (*President, Nottingham Society of Chartered Accountants*); D. Emrys Davies, F.S.A.A., (*President, Swansea and South-West Wales District Society of Incorporated Accountants*); H. G. W. Daw, F.A.C.C.A. (*President, Association of Certified and Corporate Accountants, South Wales and Monmouthshire District*); F. Downing, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*).

Dr A. Harvey, PH.D., B.Sc., F.INST.P. (*Principal, Cardiff Technical College*); Messrs C. Hodgson, O.B.E., M.INST.T. (*Traffic Commissioner*); Morris Hughes, M.I.M.N.E. (*President, South Wales Institute of Engineers*); Stanley Kitchen, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); H. A. Llewellyn Jones, J.P. (*Registrar, County Court*); F. E. Price, F.C.A. (*Member of the Council of the Institute*).

Messrs R. N. Reddaway, A.C.I.I. (*President, Insurance Institute of Cardiff*); H. Wyn Roberts (*President, Institute of Bankers, Cardiff and District*); Group Capt. R. S. Sugden, J.B.E., A.F.C. (*High Sheriff of Glamorgan*); Messrs Gilbert Shepherd, M.B.E., J.P., F.C.A.; W. F. Thomas (*Chief Constable, Cardiff*); C. C. Taylor, J.P., F.C.A. (*President, Liverpool Society of Chartered Accountants*).

Messrs T. H. Trump, F.S.A.A. (*President, Incorporated Accountants' South Wales and Monmouthshire District Society*); Professor Brinley Thomas (*University College of South Wales and Monmouthshire*); Messrs A. H. Walton, F.C.A. (*President, Manchester Society of Chartered Accountants*); J. Woodley (*President, Cardiff Incorporated Chamber of Commerce*); C. Montgomery Williams, F.C.A. (*Member of the Council of the Institute*).

Knowledge and Experience

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales,' Sir Henry Wilson Smith spoke of the advantages of articles with their purpose of giving knowledge of the science of accounting together with practical experience that was necessary in order to acquire the art of a chartered accountant.

'As chairman of a company I would say that we want both,' Sir Henry went on. 'We want the accountant who is well grounded in the science of accounting - but we want more than that. We want the adviser who has also acquired the art of accounting which to me is the process that puts flesh on the bones of that science.'

Sir Henry paid a tribute to the work of Mr Lawson, particularly during recent times and in connection with the integration scheme, and added that Mr

Lawson had given a long and distinguished service to various Governments in many spheres.

Sir Henry then recalled that when he joined the commercial side of the Treasury twenty-five years ago he was privileged to have the benefit and guidance of Lord Plender. He went on:

'One of the people whom Lord Plender asked me to seek for advice about various activities in this part of the world was a very esteemed member of your own Society - Mr Gilbert Shepherd.'

Tribute to Mr Shepherd

In his response to the toast, Mr Lawson spoke of the work of Mr Gilbert Shepherd, who retired recently from the Council, and said:

'He did a magnificent job of work on the Council for many years and will be particularly remembered for his outstanding contribution as President during the immediate post-war period when he was responsible for laying the foundations of post-war planning and policy. He is one of a very small number of Past Presidents - about a dozen in all - who have been honoured by a presentation of a portrait which hangs in the Oak Hall at Moorgate Place.'

Mr Lawson went on to say that at its last meeting the Council had been delighted to welcome Mr Shepherd's successor on the Council, Mr Montgomery Williams, of Swansea.

An Adaptable Profession

Continuing, Mr Lawson said:

'We live in times of great change in the field of accountancy as well as in other spheres. In the past we have shown ourselves as a profession to be adaptable and ready to accept new methods and new tasks. This, I am sure, we shall continue to do. As a profession we are not bound by any rigid frontiers and are free to take advantage of the many opportunities which present themselves for extending the scope of our activities.'

Proposing the toast of 'The Guests', Mr Brown welcomed Mr Montgomery Williams as a new member of the Council of the Institute.

'No words of mine can add to what has already been said about Mr Shepherd,' he went on. 'He has represented us for a period of twenty-seven years and as long as ten years ago he sat in this chair as President of the Institute. We thank him and wish him long life and happy retirement with his wife.'

Another member of the Council to be welcomed was Mr F. E. Price, of whom Mr Brown said:

'He is one of ten incorporated accountants co-opted on to the Council of the Institute. He has many interests in this part of the world and although regarded as a London member we hope nevertheless to think of him as one of our local members.'

Responding to the toast, Alderman Manley apologized for the unavoidable absence of the Lord Mayor, and spoke of schemes with which Cardiff City Council were anxious to proceed for the improvement of the city.

Mr Diamond also responded and expressed the view that the coming year would be a most memorable one in the accountancy world.

JUBILEE DINNER

Bradford and District Chartered Accountant Students' Society

A jubilee dinner celebrating the fiftieth anniversary of the formation of the Bradford and District Chartered Accountant Students' Society was held at *The Midland Hotel*, Bradford, on December 17th.

To mark this milestone in the Society's history, the Past Presidents, together with this year's President, Mr J. L. Simpson, F.C.A., and the Vice-Presidents, have presented the Society with a President's Jewel. The badge of office was worn by Mr Simpson for the first time at the dinner, at which he presided.

Among those present were the Rev. J. P. Newell, M.A., Headmaster of Bradford Grammar School; Mr W. K. Whitehead, Senior Vice-President of the Bradford Chamber of Commerce; Mr D. Steele, F.C.A., President of the Leeds, Bradford and District Society of Chartered Accountants; Mr E. Duncan Taylor, F.C.A., and Mr Victor Walton, F.C.A., members of the Council of the Institute; Mr G. D. Paterson, M.A., F.C.A., Hon. Treasurer of the Leeds, Bradford and District Society of Chartered Accountants; Mr A. J. de Lacy Taylor, Hon. Treasurer of the Students' Society, and

Messrs P. B. Barker (*Joint Hon. Secretary, Bradford Law Students' Society*); J. G. Challender (*Committee Member, Manchester Chartered Accountants' Students' Society*); P. E. Couse (*Hon. Assistant Secretary, Birmingham Chartered Accountant Students' Society*); K. V. Dodman (*Committee Member, Liverpool Chartered Accountant Students' Association*); J. A. Ferguson (*Joint Secretary, Leeds and District Chartered Accountant Students' Association*); F. N. Heggs (*Hon. Students' Secretary, Incorporated Accountants' Bradford and District Society*); W. W. Kirkham (*Joint Secretary, Sheffield and District Chartered Accountant Students' Society*); R. F. Lander (*Hon. Assistant Secretary, Nottingham Chartered Accountant Students' Society*); R. A. McKinlay, M.A., B.COMM. (*Head of the Commerce, Languages and Banking Department, Bradford Institute of Technology*); B. M. O'Regan (*Vice-Chairman, Chartered Accountant Students' Society of London*); M. K. Zivanaris (*Hon. Press Representative, The Chartered Accountants' Students' Society of Kingston upon Hull*).

Challenge to British Trade

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr Whitehead spoke of the personal help and guidance he had received from members of the Institute and said he had wholesome respect, admiration and even awe for accountants – their expert help with figures had been indispensable all his life.

In the past thirty years, he went on, there had been a fantastic increase in the membership of the profession which emphasized their necessity in modern society.

Mr Whitehead concluded by referring to the European Common Market, which was now a reality. Given a fair chance, he said, British trade could confidently meet the challenge which it now faced.

The really hard work had yet to be done. The definition of origins of goods and methods of certification were difficult problems to be settled. In addition, provisions for quality had to be made to make sure British industries competed with those of other countries on the same level. 'One sees many things in the Press,' he added, 'but given a fair chance, particularly in taxation, I am confident we can make good.'

The response was made by Mr Steele, who congratulated the Society on its jubilee.

The biggest thrill of his year of office, he said, had been to present five out of the six top honours in the Final examinations in May to students of the District Society. Some of the young men were present and it was probable that their record would never be surpassed. It was a remarkable achievement.

The past year had been an eventful one, he said. Controversy was behind them and integration was a fact and working well. Now was the time to welcome new members both to the Students' Society and the District Society.

Referring again to integration, Mr Steele said this would lead to better tuition facilities for students with the main objective in view – the examinations. It might also bring some appreciation of the wider place of the Institute in the affairs of the nation.

Vital Part of Education

Mr Newell proposed the toast of 'The Bradford and District Chartered Accountant Students' Society.'

Referring to the office of the Minister of Education, Mr Newell said he wished there would be no more holders of that office, of whatever party, who used the position as a stepping stone. It should always be rated a post of major responsibility and of Cabinet rank. At this stage of world history it was more dangerous than ever for the nation to be penny wise and pound foolish in education.

It was as well, Mr Newell went on, to recognize both the glory and the limitations of the new profession of accountancy. It was rather like medicine in that it kept clean and healthy the processes of business commerce and industry. It had a twofold obligation, the accountant to his employer, and the accountant to the community and the nation. It was the second one that was sometimes forgotten.

The accountant's task was to see that standards of honesty and integrity obtained in business and to guarantee that there was no evasion of responsibility, financial or otherwise.

The response to the toast was made by Mr Simpson who said that Mr Newell had obviously found time somehow to study and take an interest in the accountancy profession. 'We are very anxious,' he added, 'that headmasters should be aware of the opportunities which exist in our profession today.'

Mr Simpson went on to say that the Students' Society was formed as long ago as 1907 and some of the founders were still actively engaged in the profession. He continued:

'Nowadays it seems to be fashionable for some young men to look back in anger, but I would like the founders to know that our young men look back with pleasure and with gratitude for the initiative and industry of those pioneers who sponsored this Society so long ago; and for the great interest shown by many in more recent years, notably by David Steele, who did so much to widen the scope of the Society's activities.'

Mr de Lacy Taylor proposed the toast of 'The Guests' and the response was made by Mr Barker. The toastmaster was Mr E. R. Armstrong, a member of the Society.

Notes and Notices

The Accountant

INDEX TO VOL. CXXXVII: JULY-DECEMBER 1957

The general index to this volume - July to December 1957, Vol. CXXXVII - will be published with the first part of the next volume, dated January 4th, 1958.

The parts of this volume should therefore not be sent for binding until the index has been added.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ARTICLED CLERKS AND BYE-LAW CANDIDATES OF
THE SOCIETY OF INCORPORATED ACCOUNTANTS

Forms of application under the scheme of integration have now been issued to articulated clerks and bye-law candidates of The Society of Incorporated Accountants (now in voluntary liquidation). Under the scheme which became effective on November 2nd, 1957, all such articulated clerks and bye-law candidates (and all former articulated clerks and bye-law candidates who come within the terms of the scheme) should apply for registration with the Institute within six months of the effective date, i.e. by May 2nd, 1958.

A great deal of information of value to those entitled to apply, including the relevant clauses of the scheme of integration and the rules of eligibility relating to examinations, is included in the notes which accompany each copy of the form of application.

Any articulated clerk or bye-law candidate who has not received a form of application should apply direct to the Secretary of the Institute, Moorgate Place, London, EC2.

PERSONAL

MESSRS LAMBETH, JOHNSTONE & Co, Chartered Accountants, of 160 Piccadilly, London, W1, announce that as from January 1st, 1958, they are admitting into partnership Mr R. H. SHOTLIFF, A.C.A., who has been a member of the firm for some years. The name of the firm will remain unchanged.

MESSRS FULLER, WISE, FISHER & Co, Chartered Accountants, of 55-61 Moorgate, London, EC2, announce that as from January 1st, 1958, Mr J. SIMS, A.C.A., who has been a member of the firm's staff for a number of years, has been admitted into partnership. The style of the firm will remain unchanged.

MESSRS ARTHUR ANDERSEN & Co announce that they have now removed their London office to Roman House (6th Floor), Cripplegate Buildings, London, EC2. Telephone: Metropolitan 0271.

PROFESSIONAL NOTES

Mr P. G. Walker, F.C.A., has been elected to a seat on the London District Board of Martins Bank Ltd. Mr Walker is managing director of Albert E. Reed & Co Ltd and other companies.

Mr Michael J. Howard, A.C.A., F.C.W.A., has been appointed to the board of Price's (Bromborough) Ltd, of Bromborough Pool, near Birkenhead.

Mr Sidney A. Wale, A.C.A., has been appointed chairman of C. Lindley & Co Ltd, and continues as managing director.

Lord Latham, J.P., F.A.C.C.A., has been appointed chairman of the finance committee of the Metropolitan Water Board.

IN PARLIAMENT

COMPANIES: VOTELESS SHARES

MR GOODHART asked the President of the Board of Trade whether he will consider amending the Companies Act so as to restrict the issue of voteless shares.

MR ERROLL: My right hon. friend does not think the present position calls for amending legislation but he will continue to watch developments.

Hansard, December 17th, 1957. Written Ans. Col. 35.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

As a result of integration, two further discussion groups, previously run by the Incorporated Accountants' London and District Society, are now open to chartered accountants.

The Taxation Group meets on the first Wednesday of each month up to and including May 7th, 1958, and the Management Group on the second Wednesday up to and including April 9th, 1958. Both groups meet at 6 p.m. at Incorporated Accountants' Hall, Temple Place, Victoria Embankment.

Members would be welcome at these meetings and full particulars may be obtained from:

Taxation Group: Mr H. Gordon Smith, Messrs Keeling & Co, 118 Chancery Lane, WC2.

Management Group: Mr D. L. Brown, of Mars Ltd, Slough, Bucks.

SOUTH WEST LONDON CHARTERED ACCOUNTANTS' DISCUSSION GROUP

The next meeting of the South West London Chartered Accountants' Discussion Group will be held at *The Kingston Hotel*, Kingston upon Thames, on Monday, January 6th, 1958, at 6.45 p.m., when the subject for discussion will be the Institute's retirement and superannuation schemes.

CHARTERED ACCOUNTANTS' DINNER AT SOUTHEND

Eighty-six members, articulated clerks and guests attended the tenth annual dinner of the Southend-on-Sea Chartered Accountants' Group, in conjunction with the Southend Branch of the London Chartered Accountant Students' Society, held at *The Queen's Hotel*,

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VALUERS AND ASSESSORS
OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Westcliff, on December 5th. The chair was taken by the group vice-chairman, Mr A. J. Wilson, F.C.A., in the absence of the chairman, Mr R. E. Barnett, F.C.A., who had fallen ill during the day. The principal guests were the Mayor of Southend, Councillor Fred H. Woods, J.P., and Mr E. Kenneth Wright, M.A., F.C.A., Chairman, London and District Society of Chartered Accountants.

Others present included:

Messrs H. Bell, F.S.A.A., F.I.M.T.A., D.P.A. (*Borough Treasurer*); K. R. Brown (*H.M. Inspector of Taxes, Southend 3rd District*); J. H. Burrows, M.A., J.P. (*Editor, 'Southend Standard'*); J. A. B. Cooke (*H.M. Inspector of Taxes, Southend 1st District*); W. Emery (*H.M. Senior Inspector of Taxes, City 10th District*); F. A. Francis, J.P. (*General Manager, Southend Waterworks Company*); R. J. Stuart King (*Past President, Southend Law Society*); Councillor E. H. R. Martin, F.S.A.A. (*Chief Accountant, Southend Waterworks Company*); Mr W. G. Mentern (*H.M. Inspector of Taxes, Southend and District*); Councillor L. W. Penn (*Sun Life Assurance Company*); Capt. L. Woodthorpe, F.C.A.

After grace by the father of the Group, Mr Edwin Hard, F.C.A., the company stood in tribute to Mr Ronald Staples, Editor-in-Chief of *The Accountant* and *Taxation*, who had died that day.

The toast of 'The County Borough' was proposed by Mr L. M. Keen, F.C.A., and in his reply, the Mayor stressed the Borough's intention to cater for all classes of residents and visitors, and made a plea for tolerance for the town's visitors.

Mr E. K. Wright proposed the toast of the Group, praising its activity and mentioning the need for decentralization of the London Society. The Chairman responded, and thanked the London Society for all its support; also the Hon. Secretary, Mr A. A. Stewart, A.C.A., and the Hon. Press Officer, Mr John Kennedy Melling, A.C.A., for their work in respect of the dinner.

Mr H. E. Hassall, F.C.A., proposed the toast of 'The Guests' and Mr W. Emery responded. A most unusual and skilful cabaret was provided by the Palladium Puppets, presented by Joe and Robin Barnes.

ELECTRONIC DATA PROCESSING CONFERENCE

The Birmingham branch of the Office Management Association is holding a one-day conference on January 28th, 1958, with electronic data processing as its theme.

The address at the morning session will be given by Mr G. H. S. Jordan, of H.M. Treasury (O. and M. Division), who will speak on 'Electronic data processing in the U.S.A.'. The afternoon session will consist of an address, 'Paving the way for electronics', by Mr C. F. Powell, director of Norcross & Partners Ltd.

There will also be a display of literature, photographs and models by the leading manufacturers of equipment in the computer field. Further information concerning the conference - which will be held at the Botanical Gardens, Birmir - may be obtained from the conference convener, Mr E. C. Blewitt, Swallow Raincoats Ltd, Great Hampton Street, Birmingham, 18.

WEST WALES STUDENTS' DINNER-DANCE

The West Wales Chartered Accountant Students' Society held their fifth annual dinner-dance at *The Osborne Hotel*, Langland, Swansea, on December 13th, when the President of the Society, Mr H. Wilson Thomas, F.C.A., presided.

Among those present were Mr C. Montgomery Williams, F.C.A. (local member of the Council of the Institute), Mr M. N. Phillips (hon. secretary, South Wales and Monmouthshire Chartered Accountant Students' Society), and Mr P. W. Johnson (hon. secretary, Bristol Chartered Accountant Students' Society). A total of eighty-six members and friends were present and all had a very enjoyable evening.

ELECTRONIC COMPUTING SYSTEMS

A two-part course on electronic computing systems is being held during January, February and March at the Sir John Cass College, Jewry Street, Aldgate, London, EC3.

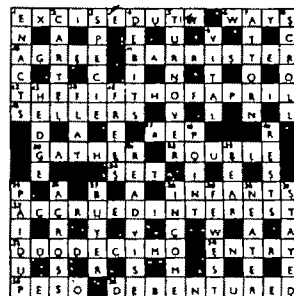
Part I of the course which is concerned with the construction and operation of electronic digital computing systems designed for commercial processes, will consist of nine lectures given on Monday evenings, beginning on January 28th, 1958. This part of the course is designed not to detail descriptions of individual computers, but rather to give an appreciation of the operation and programming of computers in general.

Part II will consist of about eight to ten lectures on Wednesday evenings and will begin on January 15th, 1958. Its subject will be a review of the commercial applications of electronic digital computing systems, and the syllabus will include particular reference to payroll, costing, material control and sales and invoicing.

The fee for each part of the course is £1 for those residing in the administrative County of London. Further information about the course may be obtained from the Secretary of the College.

CHRISTMAS CROSSWORD: SOLUTION

The solution to the 'Christmas Crossword', compiled by Mr Kenneth Trickett, A.S.A.A., which appeared in last week's issue, is as follows:



MOTOR — FIRE — CONSEQUENTIAL LOSS
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